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Separate section

World Business Newspaper http://www.FT.com MONDAY DECEMBER 16 1996

The FT's 12-part series continues today

FT Mastering Enterprise

Part Five: Getting started

Fischler to float plan for EU food watchdog body

European agriculture commissioner Franz Fischler will today propose setting up a body with far-reaching powers to protect consumers from dangerous foods. The plan is likely to upset member states determined to preserve national authority over such a politically sensitive area and some countries, particularly the UK, will fiercely resist any demand to cede power to a Brussels-based body. Page 16

Airbus consortium divided: A rift has opened up within the Airbus Industrie consortium between British Aerospace and Germany's Dasa and their French partner Aerospatiale. The French concern is resisting proposals for Airbus to take over management of certain aircraft factories under a plan to turn the consortium into a limited company. Page 16 and Lex

Refugees leave Tanzania: An estimated 300,000 Rwandan refugees streamed homewards after being forced by the Tanzanian army to leave the biggest refugee camp in Tanzania. The country wants all 535,000 remaining Rwandan Hutus to leave by December 31. Zaire repeated its insistence that all Rwandan refugees on its soil return home. Page 5

Belgrade protest swells: A court in Serbia's second city, Nis, annulled local electoral victories by President Slobodan Milosevic's party and ordered the electoral commission to look again at how 26 key seats were awarded. In Belgrade, up to 250,000 protesters took to the streets in the biggest demonstration yet against Mr Milosevic's decision to scrap results which gave the opposition control of 15 of Serbia's 18 biggest towns. It is the first time a court has accepted opposition appeals over the results.

Russian budget victory: Russia's communist-dominated parliament approved the first reading of a draft 1997 budget. The vote brought prime minister Victor Chernomyrdin closer to achieving his aim of having the 1997 budget ratified by the end of the month. Page 3

Burma protest stifled: Burmese students suspended their demonstrations after the military junta moved tanks on to Rangoon's streets and confined democracy leader Aung San Suu Kyi to her home indefinitely. Page 4

Kazhak gold mine: London-listed Bakyrchik Gold and Indochina Goldfields, which is listed in Toronto, have forged a sales agreement with the Kazakhstan government for full ownership of one of the world's biggest undeveloped gold mine. Bakyrchik will release feasibility study results on the mine in January. Page 17

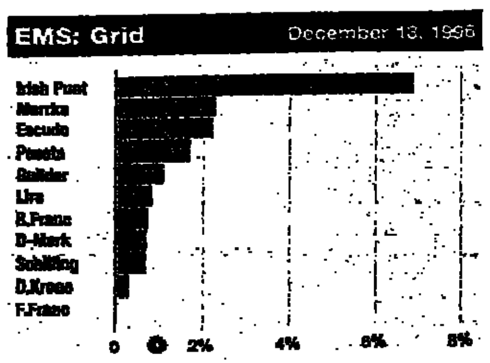
Volkswagen's stake in Czech carmaker Skoda helped lift the German group's market share in west Europe five points clear of rival General Motors last month. Page 2

China to open markets: China plans new rules giving foreign telecoms concerns more access to its market. The plan is among liberalisation moves in line with World Trade Organisation entry requirements. Page 4

Troubleshooters' brigade: Seven countries agreed to form a brigade that could be deployed to crisis spots under the UN flag. The 4,000 strong rapid deployment brigade would be used in "soft operations", where there may be tension but little danger of fighting.

European monetary system: The Irish punt remained the strongest currency in the EMS last week, with a spread against the Ecu of 6.68 per cent over the weakest currency, the French franc. If sterling were still a member of the EMS, it would be second only to the punt as the strongest currency. The D-Mark came under late pressure in after an EU stability pact was agreed in Dublin on Friday. Currencies, Page 24

EMS: Grid December 13, 1996



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

Boeing, McDonnell to merge

Dramatic $13bn deal will set up world's biggest civil and defence aerospace company

By Michael Skapinker, Aerospace Correspondent

Boeing and McDonnell Douglas of the US announced yesterday that they are to merge to create the world's leading aerospace and defence company.

The new group, which will carry the Boeing name, will have 200,000 employees and projected revenues next year of $48bn.

McDonnell Douglas shareholders will receive a 0.65 Boeing share for each McDonnell Douglas share they hold. Based on Boeing's closing price of $98¾ on Friday, the deal is worth about $13.3bn, the two companies said.

The agreement, presented by senior executives of both companies, is the most dramatic step so far in the consolidation of the international aerospace and defence industries. The merged company will tower over Airbus Industrie, the European consortium and its nearest competitor in civil aircraft, and will provide substantial competition for Lockheed Martin, the leading US defence group. Mr Philip Condit, the Boeing chief executive who will head the merged group, said: "The combination gives our nation, our companies and our people great opportunities for the future."

Boeing and McDonnell Douglas have discussed merging before, but called off talks earlier this year. Mr Condit said one of the reasons the merger was going ahead now was that the industry was growing, his company needed more employees and capacity and McDonnell Douglas could provide both.

Mr Condit said the two companies had not discussed their merger with the antitrust regulators but did not believe they would have any difficulty gaining approval. He said the two groups' businesses were largely complementary with few areas of overlap.

He wanted to see the merger completed by the middle of next year. Transition teams will be set up to plan the implementation, which Mr Condit said should result in joint savings of more than $1bn a year.

Mr Condit and Mr Harry Stonecipher, chief executive of McDonnell Douglas, played down the possibility of widespread redundancies. They said that while there might be some overlap in personnel, there would be opportunities for employees affected to move into other areas.

The group will have its headquarters in Seattle, Boeing's base, although the defence division will continue to be run from McDonnell Douglas' stronghold in St Louis. Boeing's dominance in the merged group was further underlined by Mr Condit's announcement that two-thirds of the members of the new board would be Boeing executives.

For Mr Stonecipher, the merger represents a defeat in his drive to remain an independent manufacturer of civil aircraft. Earlier this year he appointed Mr Michael Sears, formerly head of the company's F/A-18 fighter aircraft programme and one of the group's brightest managers, to lead McDonnell Douglas' civil aircraft drive.

Yesterday the two companies said McDonnell Douglas' future in civil aircraft would depend on whether airlines continued to buy its products. Mr Stonecipher appeared to accept, however, that his attempt to succeed in the civil business had failed, saying McDonnell Douglas had sold only 40 civil aircraft this year.

For rival Airbus, in the midst of its own three-year reorganisation aimed at turning it from a four-nation consortium into a limited company, the US merger presents

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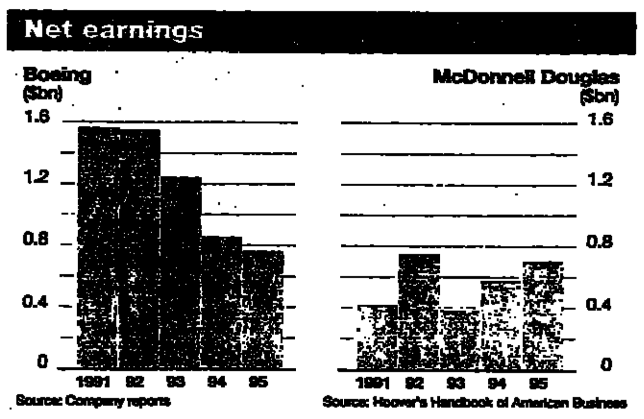
Net earnings



Source: Company reports; Source: Hoover's Handbook of American Business

The aerospace age: Boeing chief executive Philip Condit, top, and McDonnell Douglas chief executive Harry Stonecipher

Summit delay to EU reform

Leaders face tough talks over future shape of union

By Lionel Barber and Neil Buckley in Dublin

European Union leaders deferred the biggest decisions on constitutional reform at their weekend summit, setting the scene for at least six months of tough negotiation over the future shape of the union.

Their deal on budget and currency discipline in the future euro zone clears the way for talks on how to reform EU institutions and decision-making – a prerequisite for enlargement to central and eastern Europe.

The 15 member states have set themselves the target of signing a new constitutional treaty – to update the 1991 Maastricht treaty – at June's summit in Amsterdam.

Mr John Bruton, the Irish premier, said the Dublin summit was about "stable money, more jobs and safer streets".

EU leaders will need to work hard to prevent a rift during the Maastricht treaty review over the balance of power between small and large member states.

The Benelux countries signalled they would only consider surrendering some of their voting powers if larger countries made progress towards greater co-operation in justice, home affairs and foreign policy.

Mr John Major, the British prime minister, at an end-of-summit press conference, said Britain would veto any extension of majority voting and rejected a bigger role for the European Court of Justice.

In spite of signs that many EU leaders are waiting for a new Labour government in the UK – there must be a general election by May – Mr Major declared he would be at the Amsterdam summit.

But even if Britain's opposition Labour party wins the election, Mr Tony Blair, the Labour leader, is under pressure to continue a tough line on European integration. Mr Blair said yesterday he was prepared to use the veto on defence, taxation, immigration and border controls.

He also attacked as "dangerous" a French proposal for countries that did not join a single currency to be excluded from certain meetings on monetary union.

The central achievement at Dublin was the compromise over the German-backed budget stability pact setting rules on the enforcement of fiscal discipline in the euro zone.

The summit communiqué sent a message to voters who have protested in the streets of Belgium, France, Germany, Italy and Spain against austerity measures aimed at meeting the criteria for Emu. "There is no conflict between sound macroeconomic and budget policies on the one hand and strong and sustainable growth in output and employment on the other," it said.

There were hints of future disagreements as President Jacques Chirac spoke out in favour of a political counterweight to the future European Central Bank which the Germans insist must remain independent.

Mr Major was a lone voice in casting doubt on the feasibility of meeting the timetable for the single currency.

Action of Security, Page 2
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Japan to open up insurance sector

By Michiyo Nakamoto in Tokyo

Japan is to deregulate its insurance market, the world's second largest, after a last-minute deal with the US in a bitter and protracted trade dispute.

The move is expected to increase competition and lead to a shakeout in the Japanese insurance industry, one of the most highly protected sectors in the country.

The US and Japan agreed in principle at the weekend that Japan would deregulate non-life insurance premiums by July next year and adopt further measures to liberalise the insurance market, with total life and non-life premiums of nearly $400bn, in 2001.

Japanese insurance companies will be allowed to enter the so-called third sector market, which includes medical and casualty insurance, from January next year.

Several restrictions have been agreed aimed at protecting the interests of foreign companies which are already operating in the insurance sector.

Mr Ryutaro Hashimoto, Japanese prime minister, expressed relief at the agree-

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BSkyB set to signal start of digital TV revolution

Service with 200 channels could be in place next year

By Raymond Snoddy in London

British Sky Broadcasting, the satellite television venture, is expected to decide in the next few days to push ahead with the digital satellite television revolution by ordering about 1m decoder boxes at a cost of more than £200m ($328m).

The company, 40 per cent owned by Mr Rupert Murdoch's News Corporation, plans to launch up to 200 television channels in the UK before the end of next year. It hopes the boxes needed to receive digital services can sell for £200-£300 at the outset, although this would involve an element of subsidy.

A digital service provides clearer pictures, better sound and scope for a vast increase in channels.

BSkyB will spread contracts for the decoders among up to six consumer electronics groups.The shortlist includes Pace, Amstrad, Sony, Panasonic and Nokia. If, as expected, the decision to go ahead is formalised this week, orders will be placed before Christmas.

Until now a decision has been held up by UK regulatory uncertainties and by difficulties in developing the software for the more complex tasks – interactive services such as home shopping and home banking.

To avoid delay, BSkyB plans to go ahead with a decoder box concentrating on new television channels, plus pay-per-view sport and films. A more sophisticated version of the decoder offering interactive services will follow later.

Mr Murdoch, News Corporation chairman, said: "Now I think we will go with a straight simple box and have a second-generation box a year later. How many people really want to do home shopping and banking on their television sets or buy things, we don't know yet." Some BSkyB executives think the delay may only be a few months.

Mr Murdoch, in Japan for talks on the launch of a digital satellite service there next autumn, believes it important to get the UK service going quickly and add all interactive services as soon as possible.

He also emphasised he would like to see the BBC, which plans to launch up to eight new channels, be part of the new digital service in the UK.

Until now, BSkyB has also been concerned about the regulatory environment and new rules on digital television produced earlier this month by the Department of Trade and Industry. At the time, BSkyB said the proposed "near final" rules were the toughest on digital television in the world.

Other broadcasters such as the BBC have argued that the proposed rules are not tough enough to prevent BSkyB dominating the digital world.

BSkyB executives have since had private assurances that the proposed rules are not going to be toughened.

Albania	LEK 275	Gibraltar	£0.75	Lithuania	Lts 18.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75
Cyprus	C£1.30	Iceland	IKr280	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kč70	India	Rs75	Nigeria	Naira125	Spain	Pta250
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70
Estonia	EKr 28	Japan	Y500	Pakistan	Rs50	Syria	S£80.00
Finland	FM18.00	Jordan	JD1.75	Poland	Zł6.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils750	Portugal (m'land)	Es265	Turkey	L120,000
Germany	DM4.00	Lebanon	LL3500			UAE	Dh13.00

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Dublin summit: Anti-crime programme set to create friction with UK

EU leaders agree action on security

By Neil Buckley in Dublin

European Union leaders agreed at the weekend on a new programme of joint action to tackle organised crime, terrorism and the drugs trade, aimed at making the Union seem more relevant to its citizens.

But the move is bound to create friction with the UK, which opposes many of the more ambitious plans.

Mr John Bruton, Irish premier, who has made the issue a priority of his nation's EU presidency, said joint action on crime was about "bringing the enterprise closer to the people".

He was backed by President Jacques Chirac of France, who argued that protecting citizens from crime should be a new priority for a Union founded to protect against the threat of war.

Mr Helmut Kohl, the German chancellor, used his final press conference to outline ambitions for an eventual European "FBI" to tackle cross-border crime.

To emphasise their determination, EU heads made fighting international crime the dominant theme of their meeting on Saturday with leaders of 11 candidate countries for EU membership.

On Franco-German insistence, giving "operative powers" to Europol, the embryonic EU-wide police agency, was identified in the summit conclusions as a priority for the new EU treaty, due to be signed next summer. But it was stressed that Europol should work "in conjunction with national authorities".

Leaders also agreed to create a group of experts to draw up by April a joint action plan on fighting organised crime.

On drugs trafficking, EU leaders agreed on joint action on bringing laws, sentencing and the methods of police, customs and the courts more closely into line. A clampdown on drug production and cultivation and moves to fight addiction were also approved.

But it is in the more ambitious areas identified by the summit as priorities for the IGC that clashes with the UK are likely.

Broadly aimed at creating a single legal space within the EU, these include creation of a single external border, followed by abolition of internal borders. This would be accompanied by common rules on visa requirements and asylum.

Britain has blocked agreement on the external border – the key to the package – after disputes with Spain over the status of Gibraltar and opposition to the European Court of Justice's proposed role as arbiter in its administration.

The most contentious question is likely to be the extent to which justice and home affairs matters might be "communitarised" to speed decision-making. This means changing the current system, with the issue handled at intergovernmental level and decisions made unanimously by ministers, and instead giving the European Commission the right to initiate legislation which could be approved by a qualified majority vote.

Once again, Mr Major has insisted the UK will not give up its right of veto.

EU leaders hope a Labour government may be more flexible. The last thing they want is for plans aimed at making the Union more credible to its people to be undermined by a squabble.

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UK premier John Major (left) makes a point to Dutch PM Wim Kok during the summit PA

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Move to delay postal reforms

By Neil Buckley

The EU may hold a special ministerial meeting this week aimed at getting agreement to delay plans to liberalise parts of Europe's $75bn postal market.

The move is an attempt to head off a European Commission plan to use EU competition law to challenge national postal monopolies.

At the insistence of President Jacques Chirac of France, the conclusions of the Dublin summit include a request to ministers to decide on postal services this year. Officials will today try to arrange a council of postal ministers, probably on Wednesday.

In a highly unusual move, Mr Chirac urged fellow EU leaders on Saturday to adopt France's limited plan, surprisingly endorsed last month by Germany. The compromise would delay any decision on opening the markets for "direct mail" – advertising material sent in bulk – and cross-border mail until 2001, and any opening until 2003.

Postal ministers came close to adopting the plan on November 28, but rejection by Austria – which changed its position during the meeting – meant it fell short of the necessary qualified majority.

After failing to convince Austrian Chancellor Franz Vranitzky to back the plan and secure the majority in Dublin, Mr Chirac won the concession on a special meeting.

France firmly opposes postal liberalisation, fearing a backlash among postal unions and French citizens deeply attached to public services. But private carriers are dismayed at a compromise which would bar access to the only parts of the market that might be opened to them for at least seven years.

Ministers have already agreed that states can retain monopolies on domestic letters weighing up to 350g, about 75 per cent of the total market.

If a meeting this week proves impossible, it will be held as early as possible in 1997.

"An instruction from a European [summit] normally opens doors," commented one EU official.

The European Commission, which originally proposed opening the two market segments in 2001, subject to a review in 1998, has said the Franco-German plan is inadequate.

The competition commissioner, Mr Karel Van Miert, could use powers under the Rome treaty to challenge postal monopolies. But an agreement by ministers would make it much more difficult for him to act.

Jospin sets out demands for Emu

By Andrew Jack in Paris

The leader of the French Socialists yesterday laid down his party's conditions for the move to European monetary union.

During a weekend congress to approve economic and social policy ahead of the next election, Mr Lionel Jospin, Socialist presidential candidate in last year's election, said his party was "committed to the Maastricht treaty" signed by the former President François Mitterrand, but not by "the criteria added on to the treaty".

His party demanded a single currency across Europe, a "solidarity and growth pact", a euro that was not over-valued against the dollar, and some form of political involvement in the determination of economic policy.

He did not believe in the need for devaluation or "uncoupling" of the franc from other European currencies, but called on the Socialists to unite with other parties and the trade unions for a "European social contract".

His comments came at the conclusion of a two-day congress, in which 75 per cent voted in favour of an electoral programme on economic and social policies following proposals adopted at previous congresses this year on Europe and democracy.

The Socialists called for a reduction in the working week from 39 hours to 35 without pay cuts, and the creation of 700,000 jobs for young people, financed through the elimination of exemptions of employers' social security charges.

These policies will form their platform for the next legislative elections, due at the latest during 1998. The party is growing in popularity, with some opinion polls suggesting it will take control of the National Assembly and form the next government.

Skoda stake boosts VW performance

Germany's Volkswagen group last month moved more than 5 percentage points clear of its closest rival, General Motors, in the west European new car market, writes John Griffiths.

Its 17.9 per cent market share compared with 12.2 per cent for GM, with Fiat group occupying third place on 11.8 per cent.

VW's performance is benefiting increasingly from its investment in Skoda, in which it has a 70 per cent stake and whose new models have helped lift the Czech car maker's west European registrations by more than 24 per cent in the first 11 months of this year.

November also saw further growth in the share of the region's market taken by Korean producers, although the rate of increase is slowing.

The Korean producers' market share in November reached the 2 per cent threshold, but this represented a rise of only 7.6 per cent over the previous number.

In the first 11 months of the year as a whole Korean registrations have risen by 38.8 per cent, to 232,050 – a 1.9 per cent market share – from 167,156 (1.6 per cent).

WEST EUROPEAN NEW CAR REGISTRATIONS
January-November 1996

	Volume (Units)	Volume Change(%)	Share (%) Jan-Nov 96	Share (%) Jan-Nov 95
TOTAL MARKET	12,025,700	–5.2	100.0	100.0
MANUFACTURERS:				
Volkswagen group	2,061,351	+9.3	17.1	16.7
– Volkswagen	1,340,105	+11.1	11.1	10.7
– Audi	378,883	+7.3	3.2	3.1
– Seat	267,292	–0.1	2.2	2.4
– Skoda	75,071	+24.6	0.6	0.5
General Motors	1,506,062	+2.7	12.5	13.0
– Opel/Vauxhall	1,443,733	+3.1	12.0	12.4
– Saab	52,209	–3.2	0.4	0.5
PSA Peugeot Citroën	1,438,415	+5.7	12.0	12.0
– Peugeot	851,174	+4.9	7.1	7.2
– Citroën	587,241	+6.9	4.9	4.9
Ford group	1,404,408	+4.0	11.7	11.9
– Ford	1,390,815	+4.1	11.6	11.8
– Jaguar	13,593	–5.1	0.1	0.1
Fiat group*	1,350,214	+7.1	11.2	11.2
– Fiat	1,084,957	+10.4	9.0	8.7
– Lancia	151,837	–1.2	1.3	1.4
– Alfa Romeo	111,911	–8.8	0.9	1.1
Renault	1,212,248	+3.7	10.1	10.3
BMW group	750,654	+6.3	6.2	6.2
– BMW	397,453	+9.8	3.3	3.2
– Rover	353,201	+2.7	2.9	3.0
Mercedes-Benz	436,550	+15.0	3.6	3.4
Volvo	191,611	–6.8	1.6	1.8
Nissan	341,017	–1.3	2.8	3.1
Toyota	312,316	+9.0	2.6	2.5
Honda	181,869	+7.5	1.5	1.5
Mazda	161,613	+5.0	1.3	1.4
Mitsubishi	140,844	+17.4	1.2	1.1
Total Japanese	1,291,627	+6.8	10.7	10.7
Total Korean	232,050	+38.8	1.9	1.5
MARKETS:				
Germany	3,263,300	+5.9	27.1	27.2
France	1,987,700	+11.1	16.5	15.8
United Kingdom	1,947,300	+3.9	16.2	16.6
Italy	1,627,000	–0.3	13.5	14.4
Spain	824,700	+8.6	6.9	6.7

*VW holds 70 per cent and management control of Skoda.
‡Includes cars imported from US and sold in western Europe.
**GM holds 50 per cent and management control of Saab Automobile.
Fiat group includes Lancia, Alfa Romeo, Innocenti, Ferrari and Maserati.
Source : ACEA (European Automobile Manufacturers Association) estimates. Figures are rounded.

هكذا من الأصل

Chernomyrdin wins over parliament but clash looms over Chubais

Russia's budget passes first hurdle

By Chrystia Freeland in Moscow

The Russian government won an important victory yesterday when the communist-dominated parliament approved the first reading of the draft 1997 budget.

After the International Monetary Fund's decision on Friday to release the suspended October tranche of its $10.2bn loan to Russia, the parliament's vote capped a weekend of good economic news for the cabinet.

The draft budget calls for expenditures of Rbs529,800bn ($96.5bn) and envisages revenues of Rbs434,400bn. That puts the deficit at 3.5 per cent of gross domestic product, according to ministry of finance calculations, which do not count interest payments on government borrowing as part of the deficit.

In a television interview, Mr Victor Chernomyrdin, the prime minister, said that if the budget were passed and if the government could hold inflation down to between 11 and 12 per cent next year, the economy could grow by 2 per cent in 1997.

That would end a long period of economic contraction, which confounded the predictions of many western and Russian economists by continuing this year. In the first 11 months of 1996, the economy shrank by 6 per cent compared with the previous year, according to government statistics released over the weekend.

Yesterday's vote brought Mr Chernomyrdin closer to his hope of ratifying the 1997 budget by the end of the month, breaking his government's unhappy tradition of starting the new year without an approved budget.

Increased spending pledge pleases Communists

The second and third readings of the budget by the Duma, the lower house of parliament, are scheduled for December 25. That is also the day when Mr Boris Yeltsin, the president, plans to return to work in the Kremlin for the first time since his quintuple heart bypass operation last month.

However, the Communist and ultra-nationalist parties which dominate the legislature yesterday threatened to vote against the budget later this month unless Mr Anatoly Chubais, the president's controversial chief of staff, is sacked.

Mr Chernomyrdin dismissed the ultimatum, saying economic decisions should not be confused with political ones. "Mr Chubais's position has nothing to do with the budget," he said.

The 263-111 vote in support of the draft budget followed weeks of postponed votes and rejections of earlier versions.

Opposition factions in the Duma had pushed for higher social spending and investment and had criticised the government for over-optimistic revenue forecasts. But the MPs, especially the dominant Communists, seemed won over by a combination of promises to boost spending and intense lobbying by the premier.

The loudest dissenting voice came from Yabloko, the leading democratic opposition party. In a display of party discipline unusual for Russia's young legislature, Yabloko unanimously opposed the draft, warning that it was recipe for continued economic decline.

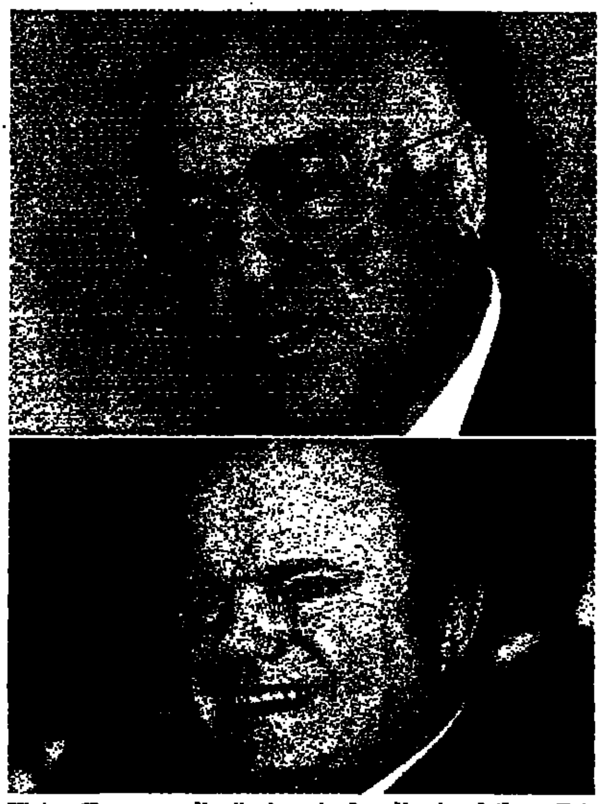
"The finance ministry is lying and wants the Duma to do the same thing," said Mr Grigory Yavlinsky, the Yabloko leader.

He said the revenue and expenditure figures in the budget were unrealistic and bore little resemblance to the actual behaviour of the government and of the real economy.

The IMF decided on Friday to disburse the $336m October tranche of its three-year Extended Fund Facility (EFF) loan to Russia.

A statement from the IMF said the monies had been released because of "improved revenue performance".

But analysts in Moscow said markets were waiting to see if and when the IMF would release the November and December tranches of the loan.



Victor Chernomyrdin (top) yesterday dismissed the call to sack chief of staff Anatoly Chubais from the Communists led by Gennady Zyuganov (bottom) *Reuter*

López to claim information was public

By Wolfgang Münchau in Frankfurt

Defence lawyers for Mr José Ignacio López, the former VW executive indicted on charges of industrial espionage, are expected to argue their client did not betray General Motors' company secrets after he moved to the German company, but used only information that was publicly available.

They will also claim that the prosecution has failed to interview relevant witnesses. Sources close to the defence team claimed prosecutors did not take enough time to investigate the case, although they spent three and a half years.

As a result the defence is confident it can establish a series of gaps in the 58-page indictment document.

Prosecutors in Darmstadt announced last Friday that they had indicted Mr López and three former associates on charges of embezzlement and betrayal of company secrets, relating to their departure from GM to VW in March 1993. If found guilty they face maximum sentences of five years.

It appears that much of the legal argument in this case, if it comes to trial, will focus on the question of what constitutes a company secret and at what point an internal secret enters the public domain.

Mr López's lawyers believe the prosecution misrepresented a key plank of their case relating to a new factory project in Spain.

Prosecutors said Mr López had used details of GM's "Plant X" project in the Basque country for a similar VW project codenamed "Plant B". The information allegedly included production details of the Corsa, personnel planning data, wages at GM's plants at Saragossa, Spain, and Eisenach, Germany, and investment spending details.

The sources close to the López defence argue that GM is not the sole owner of the information relating to Plant X since it was a joint development by GM and the Basque government and local suppliers.

They also say the project was rejected by GM and that the Basques had subsequently offered it to VW. The defence team will argue that the prosecution has not considered relevant witnesses from the Basque government and other Spanish witnesses.

Mr López's lawyers are also likely to apply the public-domain argument to a list detailing GM's purchasing data, which the prosecution says Mr López and his associates had taken from GM and used at VW.

The defence has signalled that it will apply to have the case quashed. A decision is expected in mid-February.

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Rifkind on peace mission to Cyprus

By Bruce Clark in Nicosia and John Barham in Ankara

Mr Malcolm Rifkind, the UK foreign secretary, arrived in Cyprus yesterday voicing concern about a possible military build-up in the island.

His ambitious peace-making effort, involving meetings with President Glafcos Clerides and Mr Rauf Denktash, the Turkish Cypriot leader, will take place in the shadow of United Nations warnings that the island faces one of the gravest situations since its *de facto* partition 22 years ago.

A UN report issued last week said Cyprus had seen a "negative trend" in recent months, with the violent deaths of four Greek Cypriots and a Turkish Cypriot highlighting a level of tension not seen since 1974.

The Greek Cypriot government confirmed at the weekend that it was negotiating to buy S-300 ground-to-air missiles from Russia – a move which has prompted fears among western governments of a pre-emptive strike by Turkey.

Asked about the problem by journalists on the way to Nicosia, Mr Rifkind said: "Cyprus already has a high level of military hardware. Anything that adds to that is going to be the cause of friction and tension."

The Greek Cypriot side has presented its arms build-up, including a recent purchase of T-80 Russian tanks, as the minimum necessary to ward off a threat from a strengthening Turkish garrison which far outnumbers its own forces.

The Foreign Office in London says Mr Rifkind will "focus on prospects for a comprehensive, negotiated settlement of the Cyprus problem" before talks on the island's accession to the European Union, which are expected to begin in a year.

Britain says that the prospect of EU entry should be an incentive to reunite the island as a loose federation, a goal which both sides have long accepted in theory.

But tension has risen as the prospect of EU membership draws closer. Mr Denktash has warned that any move by the Greek-controlled part of the island to join the EU without a settlement could mean war.

The Greek Cypriots retort that agreeing to wait for a solution before they join the EU amounts to giving the Turks a veto. Greece, for its part, has vowed to block the EU's other expansion plans if Cypriot entry is delayed unreasonably.

Nor is there much appetite on the Turkish side for compromise. Mr Necmettin Erbakan, Turkey's Islamist prime minister, has a record as a hawk. In 1974, he said Turkey's army, which invaded after a short-lived coup on the island by the junta then ruling Athens, should have seized the entire island instead of a third.

In July, a few weeks after his appointment as prime minister, he became the first Turkish leader to attend ceremonies commemorating the invasion.

Mrs Tansu Çiller, the Turkish foreign minister, pledged recently that the "Turkish nation is always on the side of the Turkish Cypriots, through thick and thin". She has insisted that Ankara would only accept Cypriot membership of the EU in the event that Turkey is allowed to join as well – a move that seems increasingly unlikely.

Although north Cyprus incomes are a third of those in the south, there are powerful interests opposing a political and territorial settlement. They include occupants of land that would be surrendered, commanders of the 30,000-strong Turkish garrison, and bosses of the gambling and money-laundering activities in the legal "no man's land" of the island's north.

Turkey's credit rating reduced

By John Barham in Ankara

Standard & Poor's, the New York credit rating agency, has downgraded Turkey's credit rating to B from B+ in a long-expected decision which analysts fear may still unsettle the country's volatile financial markets.

S&P released a statement after markets closed in Istanbul, saying: "The downgrade reflects worsening fiscal and debt service pressures. The government has not demonstrated the political will to implement reforms to tackle its growing budget deficit."

The agency placed Turkey on creditwatch in July, shortly after the Islamist-led coalition government of Mr Necmettin Erbakan took power.

Turkey owes foreign creditors about $73.78bn and must pay $10.4bn in interest and principal in 1997.

S&P said the public sector borrowing requirement had widened this year to 12 per cent of gross national product, compared with 5 per cent in 1995.

This has overheated the economy, causing a current account deficit of about $7bn, sustained by short-term capital flows attracted by unsustainably high interest rates.

Real interest rates of more than 25 per cent a year increase the budget deficit. Independent analysts expect debt service payments to absorb over three-quarters of the government's revenues next year, up from 60 per cent this year.

Local analysts foresee little difficulty for Turkey in honouring its foreign debts, given the central bank's reserves of more than $17bn.

Concern focuses on the budget deficit, which the government finances on local capital markets. Local currency debt rose by a more than a quarter in dollar terms this year to $30.8bn.

Beijing plans to open telecom sector

By Tony Walker in Beijing

China plans to introduce new rules giving foreign telecommunications companies greater access to its domestic market under proposals to further liberalise its economy in line with requirements for entry to the World Trade Organisation.

Beijing at the weekend unveiled a three-stage 20-category "action plan" involving reductions in tariffs, removal of non-tariff barriers and a freeing of its services sector to foreign involvement.

Mr Ma Jixian, China's representative in technical discussions prior to last month's Asia Pacific Economic Co-operation (Apec) summit in Manila, said liberalisation involved short- and medium-term targets for 2000 and 2010, and longer-term goals for 2020.

Mr Ma said that in its bid to open its telecommunications sector further China planned within the next three years new "service trade rules concerning foreign-operated telecommunications networks".

China has banned for the time being foreign telecommunications companies from operating domestic networks, but has shown flexibility on service contracts with existing domestic operators.

China's move is expected to enlarge the scope for foreign involvement in the fastest growing telecommunications market in the world.

Foreign telecommunications giants have been clamouring for a share of the China market.

Mr Ma, in an interview with the official China Daily Business Weekly, confirmed that China would cut import tariffs to 15 per cent from the current level of about 25 per cent. It would continue to lower tariffs towards 2010.

It was committed to the further phasing-out of non-tariff barriers and the abolition by 2020 of all those which did not comply with WTO rules.

China also planned to extend its "pilot" programme allowing foreign banks to engage in local currency business. Foreign banks are being allowed to conduct such business in Shanghai's Pudong development zone on an experimental basis. Mr Ma pledged within a decade foreign insurers would be permitted to extend their activities beyond Beijing, Shanghai and Guangzhou.

Before 2000 foreign retailers would be allowed to move beyond the existing 11 cities at present open to them. Foreign wholesalers would be allowed greater latitude under new regulations now being formulated. By 2020 foreign retailers would be free to operate virtually anywhere in China.

The power sector would be further opened with foreign investors permitted a larger stake.

In addition, joint venture tourism agencies would be sanctioned in five pilot cities over the next three years.

China, Japan near $5bn loans accord

By Tony Walker in Beijing

China and Japan are close to agreement on terms for some $5bn of yen-denominated loans to finance key projects, including improvements to China's infrastructure.

For the past three years negotiators have been wrangling over the "fourth batch" of yen loans, which are a veiled form of compensation for atrocities committed by the Japanese imperial army during its occupation of China from 1931 to 1945.

Mr Yu Zhangsheng, deputy director of the Ministry of Foreign Trade and Economic Co-operation's financing section, said the two sides planned to sign a formal agreement by early next year.

He described the loan as a "crucial part of Sino-Japanese trade and economic co-operation".

China and Japan reached agreement in principle in 1994 on some Y580bn ($5.12bn) in loans for 1996-2000, but agreement was delayed by wrangling over repayments on existing borrowings denominated in yen.

Beijing had sought "compensation" for the strong yen which sent its repayment costs spiralling upwards. But the Japanese currency's recent depreciation has helped to neutralise the issue.

Japan provided China with Y1,610bn or $14bn in three batches of yen loans between 1979 and 1995.

This accounted for about 40 per cent of all foreign government loans during that period and helped finance 60 projects in energy, agriculture, infrastructure and the environment.

Mr Yu criticised pressure from groups in Japan demanding conditions to be attached to loans to China. Referring to Japan's decision last year to freeze grant aid in protest at China's continued testing of nuclear devices, he said: "China is against political conditions attached to economic co-operation."

Tensions have also arisen this year between Beijing and Tokyo over disputed islands in the East China sea, but Sino-Japan trade and investment appear to have been unaffected.

According to Chinese customs statistics, two-way trade rose to $41.27bn in the first three quarters, up 3.6 per cent on the same period last year.

Japanese pledged investment reached $24.3bn by June this year. Actual investment exceeded $12.3bn, making Japan the third largest foreign investor in China after Hong Kong and Taiwan.

Singapore deals give a boost to WTO

Ministers did not want to damage group's credibility, writes Frances Williams

The World Trade Organisation's first ministerial meeting could have been a disaster and very nearly was.

At the outset, no one had much idea how 128 ministers from every part of the globe could be cajoled into agreeing, by consensus, a statement on such politically divisive issues as labour standards and future WTO work on investment and corruption in awarding government contracts.

Meanwhile, talks on an information technology agreement (ITA), billed as the centrepiece of the meeting, appeared to be caught up in sterile transatlantic squabbling between Washington and Brussels.

Yet on Friday Mr Yeo Cheow Tong, Singapore's trade minister, who chaired the meeting, could truly claim it a "resounding success". Over 30 countries plan to sign an ITA next spring to eliminate by 2000 tariffs on trade in IT products worth $500bn a year.

The US, European Union and six other nations also agreed to scrap customs duties on 450 pharmaceutical products, while the US pledged to abolish tariffs on brown and white spirits in an ITA-linked sweetener for the EU.

About a dozen countries announced new or improved offers in the WTO talks on liberalising basic telecoms, raising hopes of a successful conclusion by next February's deadline.

Ruggiero: plaudits for deft handling of complex talks

Japan's Ministry of Finance will raise the tax on shochu, a liquor native to Japan, and reduce the tax on whisky and other spirits in response to a ruling by the World Trade Organisation, writes Michiyo Nakamoto in Tokyo.

The decision was announced prior to today's deadline to agree a timeframe for introducing changes to Japan's liquor tax system in response to the WTO ruling. Earlier this year, the WTO ruled that Japan's tax system discriminated against foreign spirits by setting the tax on shochu at substantially lower rates than that on whisky or white spirits, such as vodka.

The WTO also ruled that the differential between taxes on shochu and other spirits must be reduced to *de minimus* levels.

Unless Japan can reach agreement with the EU, the US and Canada today on how and over what period it will amend its tax system, it will be obliged to make changes to satisfy the WTO ruling by February 1998.

However, Japan faces difficulties in raising the tax on shochu to bring it into line with that on whisky, as this would mean raising the tax by up to seven times. This would be particularly damaging to small, independent shochu makers.

Lowering the tax on whisky would cut the tax take just as the government needs to raise revenues.

And ministers finally agreed a declaration that includes a reference to core labour standards and launches an ambitious WTO work programme covering investment, competition policy, transparency in government procurement and simplification of customs procedures.

Much of the credit for this success is due to Mr Renato Ruggiero, WTO director general, who won plaudits last week for his deft handling of the complex negotiations on the declaration. But the outcome also reflected willingness of all sides to compromise rather than see the meeting collapse in failure, and with it the WTO's credibility and authority.

Especially significant was the role played by members of the Association of South East Asian Nations (Asean), led by Malaysia, which abandoned their categoric opposition to the inclusion of labour standards and new agenda items in the declaration. Subsequent western concessions eventually brought India, Pakistan, Egypt, Tanzania and other outliers into the fold.

It was also a good week for the EU, whose 15 members demonstrated more unity than usual at such meetings, and for Sir Leon Brittan, Europe's trade commissioner, who secured from Ms Charlene Barshefsky, the acting US trade representative, most of the EU's demands in the IT talks.

Ms Barshefsky did not do badly herself, clinching the IT deal which her boss, President Bill Clinton, so badly wanted and getting labour standards, a US priority, into the WTO declaration. These victories should stand her in good stead when she faces Senate confirmation hearings on her nomination as US trade representative, formally made on Friday as she flew to Tokyo for talks with Japan on insurance.

Developing countries were less pleased, complaining that far too much time was spent on arguing over the so-called new issues and too little on discussing problems of implementation of the Uruguay Round global trade agreements, especially on textiles and agriculture.

There were also gripes about the procedure for reaching consensus on the declaration which included a series of small-group meetings from which many countries were excluded. "No one involved with this process ever wants to have a ministerial declaration again," said one grumpy negotiator after four sleepless nights.

Predictably hardest to resolve was the issue of labour standards, where the US threatened to veto the entire declaration if no mention was made. Ministers eventually agreed to uphold "internationally recognised core labour standards" – generally defined as the right to form trade unions, non-discrimination, and the elimination of forced labour and exploitative child labour.

But trade sanctions to enforce them were rejected and there is no provision for follow-up work in the WTO, which is asked simply to maintain its (minimal) collaboration with the International Labour Organisation.

Meanwhile, a row over textiles ended on the first day after the US accepted wording in the declaration that implicitly criticises Washington for breaching the spirit (though not the letter) of the WTO accord to liberalise trade in textiles and clothing. But Argentina ran into opposition from Japan, South Korea and the EU, all with protected farm sectors, in its unsuccessful bid to secure more than a passing reference to agriculture. Plans to help the poorest nations by giving them duty-free access to markets were also watered down.

On new issues for the WTO agenda, ministers agreed to establish working groups to examine the links between trade and investment, and trade and competition policy, including "anti-competitive practices".

Although developing countries insisted that the two-year studies could not lead to negotiations without an "explicit consensus" among WTO members, the WTO is due to review the need for such talks in 1999 and many countries believe they will begin around the turn of the century.

Ministers also agreed on a working group to look at transparency in government procurement practices with a view to negotiations on a future agreement the US says will help root out corruption.

The WTO will also begin work on the simplification of customs procedures. "It would have been a disaster if agreement had not been reached," Mr Ruggiero said. Instead, the outcome showed "the multilateral system is strong and it works".

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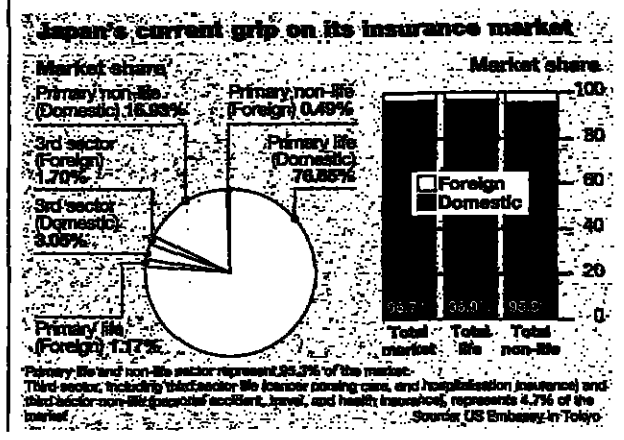
Japan's current grip on its insurance market



Primary life and non-life sector represent 95.3% of the market. Third sector, including third-sector life (cancer nursing care, and hospitalisation insurance) and third sector non-life (personal accident, travel, and health insurance), represents 4.7% of the market. Source: US Embassy in Tokyo

ASIA-PACIFIC NEWS DIGEST

Junta stifles Burma protest

Burmese students have called a temporary halt to their protests after the country's military junta moved tanks on to the streets of Rangoon and confined democracy leader Ms Aung San Suu Kyi to her home indefinitely.

Following the largest street demonstrations since a crackdown in 1988 left thousands dead, the regime has closed all universities and most secondary schools in the capital and sent thousands of students home, making further protests difficult.

However, student leaders said at the weekend that because their demands for an independent student union had been rejected, they would take to the streets again soon and would try to involve non-students.

If enough people joined future demonstrations, Ms Suu Kyi and her National League for Democracy (NLD) may be drawn in, according to student leaders, although the two groups are not co-ordinating actions. Government officials say Ms Suu Kyi is being told to stay inside her blockaded compound to prevent exactly such an occurrence. The democracy leader has been confined to her home since December 5. *Ted Bardacke, Rangoon*

Coalition wins WA poll

A conservative Liberal-National coalition government in Western Australia has been returned to office for a further four years, following a state election on Saturday. The Labor opposition managed a 0.5 per cent swing against the government, headed by Mr Richard Court, but could still lose up to three seats.

Despite this, both Mr Geoff Gallop, opposition leader, and Mr Kim Beazley, federal Labor leader, drew some comfort from the outcome. They noted a stronger swing towards Labor in some urban areas, although this was offset by the state's mining and rural electorates. It is the first time in about a decade that the party has gained ground – albeit modest – in Western Australia.

■ Remaining budget legislation has been passed by the federal parliament. A social security package expected to save Canberra up to A$1.4bn (US$1.1bn) over four years was passed with a few amendments. *Nikki Tait, Sydney*

Thai call for EU boycott

Thai seafood companies have initiated a boycott against whisky, Airbus jets, Louis Vuitton bags and European exports to protest against higher European Union tariffs on Thai frozen shrimps. Members of the Thai Frozen Food Association emptied bottles of French wine and handed round a Californian alternative at a press conference to launch the boycott.

The EU is to halve the Generalised System of Preferences privileges on Thai seafood at the end of this year and drop them altogether in two years. Exports of frozen seafood are worth some Bt55bn ($2.15bn) a year to Thailand. An EU official in Bangkok said simply that Thailand had outgrown GSP privileges, which were designed to help nurture young industries in developing countries. *William Barnes, Bangkok*

Olympic village contract

A consortium headed by Australia's Mirvac and Lend Lease groups has won the A$470m (US$374m) contract to build the athletes' village for the Olympics Games to be hosted by Sydney in the year 2000.

The village is set to provide accommodation for 15,300 athletes and officials during the games, and the dwellings will form the basis of a residential suburb after the event. The consortium plans to use solar power, with solar photovoltaic modules installed in the roofs of up to 665 permanent dwellings in the village. *Nikki Tait, Sydney*

Insurance sector braces itself for big upheaval

By Michiyo Nakamoto in Tokyo

Japan's agreement to open its insurance market is likely to cause some upheaval in the country's industry but will advance deregulation of the financial sector.

The most immediate benefit is that foreign companies are set to gain from a deregulation of rates in the non-life insurance sector, including fire and vehicle insurance, to take place by the end of 1998.

Final agreement was reached yesterday, ending a protracted bilateral dispute that US President Bill Clinton had called the biggest trade barrier between the two nations.

After months with little or no progress, Mr Warren Christopher, US secretary of state, telephoned his Japanese counterpart to apply some last-minute pressure before yesterday's deadline.

The US had argued that substantial deregulation of non-life insurance premiums would provide Japanese consumers with greater choice and allow foreign companies to compete better with the established domestic insurers on the basis of rates.

Non-life insurance premiums are currently set by a rating association at levels that allow even inefficient companies to make profits.

However, the Japanese non-life industry had fought most vigorously against deregulation of premiums in particular, on the grounds that it would lead to unequal treatment as well as increase the risk that more people would go uninsured.

For example, deregulation of motor insurance, which makes up nearly half the non-life sector, was resisted because of concerns that young people with more risk would be charged higher rates and therefore might not sign up for policies.

The Japanese insurance industry was also concerned that smaller companies would find it tougher to compete in the new world and that medium and small insurers would have to streamline to cut costs. Analysts say liberalisation of premiums would result in disappearance of some financially weak companies and a rise in mergers.

The small number of companies in the industry – there are only 24 non-life insurance companies and 27 life insurance companies in Japan compared with about 4,000 in the US – means market forces are unlikely to work effectively, says Ms Rie Ota, industry analyst at ING Barings in Tokyo.

Rating associations set rates at levels that provide reasonable profits for everyone, but once rates are deregulated and price-cutting occurs, the whole system of making profits collapses, Ms Ota notes.

Non-life premiums in Japan now are set at levels that allow even inefficient companies to make profits

While agreeing to deregulate rates, Japan has also agreed measures to ensure businesses of foreign companies are protected from severe competition by large Japanese insurers.

Also under the agreememnt, Japanese companies will be allowed – in stages – to enter the niche third sector that includes cancer, healthcare and accident coverage.

Foreign companies, particularly US insurance groups, have carved out a profitable niche in this sector.

The US had strongly resisted a Japanese move this year to allow domestic insurance companies into the third sector through their subsidiaries.

Japan agreed to prohibit new entries into the third sector until 2001 and to adopt measures to protect foreign insurance companies from a drastic change in their business environment in that market.

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US president retains centre ground in new cabinet with few surprises

Clinton plays it down the middle

Ever since he was re-elected, President Bill Clinton has talked about the new "vital centre" in American politics. His second-term cabinet, now almost complete, is certainly mostly of the centre, though its vitality remains to be proved.

It also has a strong, if non-ideological, political content. Friday's appointments included those of Congressman Bill Richardson of New Mexico to the United Nations ambassadorship and Mr Bill Daley, from the Chicago mayoral dynastic family, to secretary of commerce.

It provides both continuity and change. The largest symbol of the former is Mr Robert Rubin, re-appointed as treasury secretary and, along with Mr Alan Greenspan at the Fed, without challenge as the architect of economic policy. He is increasingly viewed in Washington as a great secretary-in-the-making.

Mr Gene Sperling, new head of the White House national economic council (NEC), partly learned at Mr Rubin's knee. Mr Larry Summers, of the eternally restless resumé, seems finally content as deputy treasury secretary, with expanded responsibilities as an NEC member. The delay in naming a fresh chief of the council of economic advisers, already somewhat downgraded in influence, portends no alternative power centre, nor does the retention of Mr Franklin Raines as budget director.

Equally, national security policy may be in different hands, with the nominations of Mrs Madeleine Albright for the state department and Mr William Cohen to the Pentagon announced 10 days ago. But there are few expectations of radical shifts in direction.

Familiar faces in Clinton (left) second-term team: Larry Summers (centre) and Robert Rubin at the Treasury

The administration of justice also stays with Ms Janet Reno for the time being. Whatever her detractors may say about her competence in the law, her patented image of rock-ribbed integrity and her determination to stay on the job made it virtually impossible for Mr Clinton to remove her, even if he wanted to, given all the pending investigations into his family and members of his administration, past and present.

Others remaining in post include Ms Donna Shalala at the department of health and human services and Ms Carol Browner at the environmental protection agency. Mr Bruce Babbitt's future at the interior department is less certain, but his departure might only be for something bigger, like the US supreme court.

Mr Richardson, whose mother is Mexican and therefore, in the diversity stakes, is considered Hispanic, at least will not inherit an ongoing battle over the next UN secretary-general, following the emergence on Friday of Mr Kofi Annan of Ghana, the preferred US candidate, as successor to Mr Boutros Boutros Ghali.

He is an interesting choice, well enough known in the nation's capital and increasingly around the world as a semi-freelance troubleshooter in distant hotspots – North Korea (twice), Sudan (last week) and as an early western bridge to Ms Aung San Suu Kyi, the Burmese democracy leader.

That gives him impressive credentials for the UN post among third world countries, for which he appears to possess genuine empathy.

Mr Daley takes over a commerce department that was a bureaucratic backwater until the late Mr Ron Brown gave it life and genuine influence. He was effective as manager of the White House "war room" on the North American Free Trade Agreement (Nafta) in 1993 before returning to his law practice. Like Mr Richardson, he came close to a cabinet post four years ago.

The flamboyant but effective Mr Brown is a hard act to follow in more ways than one. One part of his legacy is the controversial Democratic party fund-raising operations run out of the commerce department. Mr Daley is likely to find himself pre-occupied early answering questions from Congress about this.

But the trade team – with Mr Sandy Berger moving up to head the national security council, Ms Charlene Barshefsky named permanent trade representative and Mr Erskine Bowles a force behind the scenes as White House chief of staff – know each other well enough to avoid public conflicts.

Of four pending vacancies, the most important unresolved nomination is to the labor department, being vacated by Mr Robert Reich. A battle royal for the post is going on between two liberal Democratic bastions, the trade unions and Mr Jesse Jackson's Afro-American lobby. The unions want former Senator Harris Wofford, the latter Ms Alexis Herman, a black White House aide. So entrenched are the two sides a compromise candidate may emerge.

Mr Clinton himself does not like public disagreement among senior advisers. There may be a shake-down period early in the second term, but the new cabinet, with its premium on competence, appears to contain few free-thinkers, like the late Mr Les Aspin at the Pentagon, or perceived non-team players, such as Mr James Woolsey at the CIA, both of whom left early.

And none is likely to be rejected by the Senate. Some threat hangs over the head of Mr Tony Lake, nominated to run the CIA, partly for Bosnian policy reasons and partly because of his apparent failure to divest himself of energy share holdings.

The president and the Republican leadership in Congress freely speak of the need for bipartisanship. One bruising confirmation fight can easily leave that in tatters.

Jurek Martin

Arafat denies backing for fresh violence

By Judy Dempsey in Jerusalem

Mr Yassir Arafat, president of the Palestinian Authority, yesterday denied he would organise riots to protest against a virtual standstill in the peace negotiations, and claimed that the Israeli government was using "cheap propaganda" to divert attention from its plans to expand the Jewish settlements.

His remarks coincide with statements made Mr Benjamin Netanyahu, the Israeli prime minister, who told Israel Radio there was "clear information that the Palestinian side ... have been planning another wave of violences."

But they also reflect the breakdown of trust following the spate of violence between Israeli and Palestinian forces last September, plans by the Israeli government to expand the settlements in the West Bank and create a new Jewish settlement in the Arab district of Ras el-Amud in Jerusalem and last Friday's Israeli cabinet decision to upgrade the status of the settlements through offering financial incentives for Jewish families to settle there.

The US state department said the cabinet decision was both "troubling and unhelpful" for the peace process. But a senior adviser to Mr Netanyahu dismissed the US criticism, saying it was nothing new.

Israeli officials yesterday played down the significance of the settlement expansion policy and the financial incentives being offered to the settlers.

"This has nothing to do with the peace process. We are simply raising the morale of the settlers and giving them the same equality as other settlements," said Mr David Bar-Illan, media adviser to Mr Netanyahu.

One of the architects of the Oslo peace accords forged between the Israelis and the Palestinians, believes the peace process is now very fragile. Mr Yossi Beilin, a senior member of the opposition Labour party, said what has been achieved so far in the peace process was irreversible but "there was a real danger of violence escalating".

Mr Beilin said there were still many outstanding issues to be dealt with in the agreements, including the long-delayed redeployment of Israeli troops from the West Bank town of Hebron, which Israeli officials said they were ready to sign at any time.

"The problem is that we do not know what Mr Netanyahu stands for. We do not know what his policies are. He remains an enigma," Mr Beilin said.

INTERNATIONAL NEWS DIGEST

Jobless blow to Argentina

Argentina's Peronist government received a fresh blow to its popularity this weekend with the publication of official statistics showing the jobless rate had risen to 17.3 per cent from 17.1 per cent last May. The results of the six-monthly survey, rushed out early in an effort to dull its political impact, came as a bitter blow to the government, which had hoped the economic recovery would have dented the jobless total.

Unemployment is regularly cited in opinion polls as the public's number one concern. The political fortunes of the Peronist party in next October's congressional elections are likely to hinge on its success in bringing the jobless rate down. The survey also showed underemployment, defined as those wishing, but unable, to work more than 35 hours a week, had risen from 12.6 to 13.6 per cent. Nearly 3.9m Argentines, two in five of the active population, are out of work or underemployed.

Unemployment has nearly trebled since President Carlos Menem opened the economy in 1991, forcing companies to compete internationally and improve productivity. *David Pilling, Buenos Aires*

Dateline Buenos Aires, Page 6

PRI names new leader

The Institutional Revolutionary Party (PRI), which has ruled Mexico for 67 years, has named a new leader to prepare for what may be its most difficult elections to date. Mr Santiago Oñate, a former labour minister, resigned as the President of the PRI after 16 months of electoral setbacks and embarrassing party revolts. He was replaced by Mr Humberto Roque Villanueva, the party's leader in the lower house of Congress and a close ally of President Ernesto Zedillo.

Next July the PRI faces mid-term congressional elections and the first ever contest for governor of Mexico City. It could lose both contests, but is particularly exposed in the governorship. *Daniel Dombey, Mexico City*

Jordan to restructure airline

Jordan plans to go ahead soon with a debt-capital swap of its state carrier, the first step to a financial restructuring of the debt-ridden company for eventual privatisation, officials said yesterday. Mr Nasser al-Lawzi, transport minister, said the debt-capital swap, tripling the airline's capital to JD210m ($297m), was essential to bring the $650m debt-ridden airline back on a sound financial footing. It was also essential to proceed with a three-phased programme of restructuring, commercialisation and privatisation. *Reuter, Amman*

Greek language barrier

Greece's partially privatised telecoms monopoly, OTE, has decided against appointing a senior executive from Canada's Northern Telecom as its new managing director. The board's rejection of Mr George Tzaneteas, who heads Northern Telecom's mobile telephony operations in Latin America, indicates that planned management reforms will be postponed for several months.

Mr Tzaneteas, a Greek-Canadian who was the second shortlisted candidate, failed to get the job because he could not speak Greek fluently. The Socialist government last week turned down the frontrunner, Mr Stergios Nezis, because he lacked experience in the telecoms sector. *Kerin Hope, Athens*

Lebanon to seek $5bn finance fillip

By Roula Khalaf

Mr Rafiq Hariri, the Lebanese prime minister, will today ask donor countries for $5bn in grants and soft loans to help finance reconstruction in the country.

The "Friends of Lebanon" forum attended by some 30 countries and brokered by the US, marks the first serious attempt by the international community to assist Lebanon's planned $60bn reconstruction drive.

It comes six years after the end of a devastating 16-year a civil war which cost the country $25bn in physical damage.

"This conference is in recognition of what we have accomplished since the end of the war," Mr Hariri said.

The billionaire businessmen, who became prime minister in 1992, is credited with having rebuilt confidence in Lebanon by reshaping its image of bloodletting and religious feuding to that of a government hard at work at rebuilding.

Although Lebanon may get only a fraction of the funds it is asking for, Mr Hariri said the conference sends an important signal and will act as the beginning of a process which consolidates the international community's confidence in Lebanon.

Government officials hope that the Washington forum may also lead to an easing of the US travel ban imposed on Lebanon since 1985.

Such a move would be seen as marking a significant endorsement of Lebanon and it is hoped would encourage a faster flow of inward investment.

The establishment of a consultative group to help Lebanon was stipulated in the ceasefire agreement brokered by the US last April.

The Israeli assault highlighted Lebanon's vulnerability in a faltering regional peace process. But to offset the potential decline in private capital flows arising from political instability, Mr Hariri has been attempting to capitalise on the April attack to speed up public flow of funds.

By asking donors for $5bn over five years in grants and soft loans, he hopes to lower Lebanon's borrowing costs and insure that essential projects get under way.

"I think the Lebanese government has succeeded in convincing all countries that it is time to help Lebanon despite the stalling in the peace process," said Mr Hariri.

"We are for the peace process and if it is finalised, it would be better for Lebanon, but life cannot stop in the meantime, peace does not mean everything or nothing."

Long criticised for paying far more attention to roads and buildings at the expense of social infrastructure, Mr Hariri has included more than $1bn for the construction of new schools, vocational training centres, universities, low cost housing and hospitals out of the 31 proposed projects.

In addition to the $5bn in projects, Lebanon is also asking for $1bn in loan guarantees to obtain further financing from international markets.

Army drives Hutu masses into Rwanda

Refugee camps closed in act of forced repatriation

By Michela Wrong in Nairobi

The Tanzanian army yesterday drove thousands of Hutus across the border into Rwanda in a forced repatriation that prompted few protests from the international community.

In the second mass return to Rwanda in five weeks, refugees poured across the Rusomo border post at a rate of 1,000 an hour. They were shepherded by troops who had earlier announced the closure of north-west Tanzania's huge camps.

Scarred by experiences earlier this month, when camp hardliners threatened to prolong the two-and-a-half-year refugee crisis by driving Hutus deeper into Tanzania, the UN High Commissioner for Refugees and aid agencies were muted in their criticism of an operation few could define as voluntary.

The beginning of what was expected to be the expulsion of 540,000 Hutus in Tanzania came two days after the UN ordered Canada to wind up preparations for a multinational force to intervene in east Zaire.

The first of 350 Canadian personnel posted to the region is to fly out of Uganda today, more are due to leave on Wednesday and the last is expected to have gone by the end of December.

The force's collapse had been widely anticipated ever since some 640,000 Hutu refugees stranded by fighting in east Zaire streamed into Rwanda in mid-November, raising questions over the operation's humanitarian objectives.

Effectively closing a prolonged dispute between aid agencies and military experts over how many refugees remain trapped in Zaire, the force's commander said recently the situation there was little need for a relief operation.

The formal cancellation was confirmation that while the international community remains deeply preoccupied by the implications of Zaire's continuing disintegration, direct intervention in a dauntingly complex conflict is no longer on the cards.

Instead, foreign governments are encouraging African nations to shoulder the burden.

President Nelson Mandela, who has remained on the sidelines until now, is to attend a seven-nation summit hosted by Kenya today to discuss the conflict, a sign of how seriously Pretoria now takes the crisis.

But analysts warned that the failure to invite both Major Pierre Buyoya, Burundi's military leader, and Mr Laurent Kabila, head of the rebel alliance controlling much of east Zaire, risked dooming the summit to irrelevancy.

A previous conference hosted in Nairobi last month achieved little of substance.

Mr Kabila was last week reported to have declared a ceasefire, halting the advance that left him in control of a 300-mile strip of land. But the ceasefire was rejected by the government in Kinshasa and the rebel leader later denied making the offer.

The Zairean government, unable so far to summon a counter-attack from its panicking army, has recently hinted heavily it may be ready to hire mercenaries to combat the rebels, a tactic President Mobutu Sese Seko has resorted to repeatedly in the past.

Still weak from prostate surgery, Mr Mobutu was reported by his aides to be preparing to end his stay on the French Riviera and due to return to Kinshasa

THIS WEEK

Argentina slays ogre of inflation

DATELINE

Buenos Aires: the convertibility law masterminded by Menem and Cavallo has brought something like stability, writes David Pilling

Once upon a time, in a land called Argentina, the foul beast of hyper-inflation stalked the plains, the shredded remains of an economy crushed between its teeth. It would sneak through factory gates and gorge itself on workers' wages, then swagger down supermarket aisles spewing price rises in all directions.

So unbridled was its evil that it wiped out the local currency, provoking mass looting and sending a panicked population fleeing for refuge beneath the rock of the mighty dollar. Once, in 1989, it even swallowed a president whole. The economy in tatters, Raúl Alfonsín abandoned office six months early, leaving the beast to feast on his previously unblemished reputation.

Now the monster lies dead. Its slayers: a mutton-chopped president called Carlos Menem and his fiery (former) economy minister, Domingo Cavallo. Their weapon: a strange contraption known as the convertibility law, which cooled the printing presses – sizzling from decades of overuse – by authorising the production of fresh notes only when backed by foreign currency.

This month, Argentina celebrates two years of practically zero inflation – the product of the convertibility law and of a sharp recession. If emergency tax rises are discounted, prices have actually been falling. The gnashing of hyperinflationary teeth has given way to an eerie silence.

But traces of the beast linger on, for instance in the public's derision of coins. Argentines, who for decades saw inflation gobble up small change like so many appetisers, still struggle to comprehend that coins can actually have value.

Shop bills are regularly rounded up or down. Cashiers at international chains such as Burger King or Pizza Hut are often heard saying: "That's four pesos 30, so just give me four", or: "Can I owe you 20 centavos?" – phrases inconceivable elsewhere.

A passenger's fumbling for change in a taxi frequently elicits a look of pity from the cabbie. Don't bother, he'll say, even though he's spent the last 30 minutes telling you he works 12-hour shifts just to keep the wolf from the door.

Because the peso is fixed at parity with the US dollar, a 50 centavo piece is worth exactly 50 American cents, and a shiny peso coin a cool dollar. These are not insignificant sums in a country where a teacher may earn less than $400 a month.

Other habits are equally a product of hyperinflationary history. Stores give big discounts for cash on the nail, because credit-card payments were once regularly wiped out by galloping prices. Interest rates are astronomical, even though inflation has not stirred in two years. Utility bills come with demands to pay up within days. (Strategic delays in payment would once have earned users virtually free electricity or water).

Cash is king. In the financial district of Buenos Aires, armoured trucks shuttle between the big banks making the transfers that, in the absence of a settlements system, are still effected in bundles of pesos. An estimated half of Argentina's sophisticated middle class, the biggest in Latin America, is without a bank account, managing its affairs in dollar and peso bills. Money deposited in banks is only a fraction of that in circulation. Billions of dollars are estimated to be stashed in safe-deposit boxes or hidden under mattresses.

It is five years since convertibility brought hyperinflation to its knees, but prices remain strangely distorted. A vacation in Miami for a Buenos Aires resident often works out cheaper than a trip to Argentina's lake district, leaving much of the country's magnificent interior barely visited. Cost of car hire, CDs, books and newspapers towers above international norms.

Many inflationary distortions, however, are fading fast. A mining industry is stirring after decades in which it was easier to speculate than to scrabble in the earth for gold, copper and silver. Banks are seeking new customers, when for years they were content to float to profitability on an inflationary bubble.

But rationalising the economy has brought hardships, too. Wage bills that were formerly hidden in a blaze of zeros must now be paid for with real money. Provincial bureaucracies, once fattened with a monthly visit to the printing presses, now look impossibly distended.

Private companies, thrown open to foreign competition, have sacked superfluous workers and clamped down on wages, tripling unemployment and impoverishing a whole class of middle managers. Payment for non-jobs is a luxury most companies can no longer afford: visitors to corporate offices must now press their own elevator buttons.

Yet so vivid is the memory of rampaging inflation that record unemployment, recession and even falling wages are grudgingly accepted. Many swear that, after Mexico's disastrous devaluation, the beast's nostrils were twitching once again. Fearing chaos, Argentines sent billions of dollars abroad.

The public may rail against the government, but can still be silenced by the mere mouthing of the monster's name. Invoking the beast is a tactic President Menem has used to his electoral advantage before – and one he will doubtless use again.

The Monday Profile: Clive Davis, Arista

Still topping the charts

The photographs plastered across the walls of the penthouse office atop the Arista Building in New York City look like a *Who's Who* of three decades of pop music: Janis Joplin and Patti Smith, Annie Lennox and Toni Braxton.

In these photographs, hairstyles change, hipsters and kaftans slip in and out of fashion. The only constants are the wide smile and smart suits of the man with his arms flung around the stars – Clive Davis, chairman of Arista, one of the world's largest record labels.

At 63, Davis can look back on a career that includes being hired and fired as head of CBS Records (now Sony Music), and founding Arista. Cited as a mentor by Miles Davis and Aretha Franklin, he is credited with discovering Whitney Houston, whose latest album, *The Preacher's Wife*, was thundering through the refrigerator-sized speakers suspended from the penthouse ceiling when I called on Davis.

The speakers and scores of CDs cluttering up his desk made Davis's office look more like that of a record producer than of the executive he set out to be. Born into a working class family in Brooklyn, he won scholarships to New York University and Harvard Law School. "I had no other means of support, so I made sure I got the grades to keep them," he says. "When you're Jewish and from a working class background, you don't anticipate success. You work hard to achieve it, and once you've got it you go on working hard to keep it."

After Harvard he joined a law firm whose principal client, Columbia Records, hired him as legal counsel in 1960. Anearly coup was stopping the budding folk singer, Bob Dylan, from severing his contract. Dylan had argued that he was only 20 – and thus under age – when he signed it. Davis countered that, as Dylan had entered Columbia's premises since his 21st birthday, he had tacitly endorsed the contract.

In 1966 Davis was promoted to vice-president, and the following year to president. Dylan apart, CBS Records, as Columbia was then called, had a conservative roster of artists such as Barbara Streisand, Andy Williams and the New York Philharmonic Orchestra. When Davis heard of a pop festival that was to be held that summer in Monterey, California, he decided to attend. "It was fantastic. I was the only high-ranking label executive there. I didn't understand what was happening, but it was obvious it was part of a change in society."

In Monterey he spotted and signed Janis Joplin, whose success prompted him to sign other rock acts, including Santana and Sly & the Family Stone. CBS flourished as Davis brought in Aerosmith, Billy Joel and Bruce Springsteen, whom he introduced to CBS staff by reading out his song lyrics on closed circuit television. But in 1973 Davis was accused of charging personal expenses, including some related to his son's barmitzvah, to the company, and was fired.

Columbia, the Hollywood movie studio, came to his rescue by funding Arista's launch in 1974. Arista has since become one of the most profitable US labels by concentrating on a couple of dozen artists, all of whose work is scrutinised by Davis.

He works particularly closely with Whitney Houston and Aretha Franklin, who had been reduced to cabaret appearances in Lake Tahoe before Davis relaunched her career. Davis acts as "executive producer" on their albums, finding suitable songs and supervising the final choice of tracks. He vetoed a dozen versions of Houston's *I Will Always Love You* and insisted that she release the original demo, which subsequently became one of her biggest hits.

His latest protégé is Gary Barlow, the tubby but talented lead singer of Take That, the British boy band that split up last spring. Convinced that he will become "a great singer/songwriter in the Elton John tradition", Davis has helped select songs for Barlow's debut album.

"I'll never get rap music, but L.A. and Babyface [Antonio Reid and Kenneth Edmonds, with whom Davis formed the LaFace label in 1989] do." LaFace has produced several young stars for Arista, including T.L.C., one of 1995's best-sellers, and its latest success, Toni Braxton.

Critics claim that behind the bonhomie Davis can be ruthless – a quality often regarded as a virtue in the music biz – and unscrupulous about claiming credit for other people's achievements. One accusation is that he ordered the executive who first spotted Whitney Houston to be airbrushed out of photographs, although the singer has always said that Davis discovered her.

What no-one disputes is that "Clive always makes money", as the head of a rival label put it. When Bertelsmann, the German media group which bought Arista in 1987, forced all its other New York subsidiaries to move into the Bertelsmann Building on Broadway, Davis's was the only label permitted to remain in its own offices.

"People say I refused to go, but that's not true," says Davis. "The subject never arose. Perhaps they knew what my answer would be."

Alice Rawsthorn

FT GUIDE TO:

GENERAL MOTORS v VOLKSWAGEN

General Motors and Volkswagen seem to be crashing their heads together in violent dispute.

What is the row about?
It is a complicated legal and commercial battle between two of the world's biggest companies, involving alleged industrial espionage.

James Bond in the office?
Not exactly. The dispute centres on José Ignacio López, a Basque-born executive who switched from GM to VW in 1993. GM alleges that when he went, López took a raft of secret documents with him. Allegedly, these included new product information, plans for a revolutionary car plant and prices for zillions of parts. GM also alleges that López and seven other senior purchasing people who moved to VW soon afterwards conspired to use the information to its detriment.

Strong stuff. But aren't multinationals always accusing each other of something, especially those that sell high-profile consumer products like cars?
Battles are nothing new. But the "López affair" is unusual even for litigious companies. It has lasted longer and aroused more bitterness than most corporate dramas. And it entails both a potential $1bn (£600m) civil suit and perhaps criminal cases in the US and Germany.

How complicated is the dispute?
There are three big investigations or lawsuits being pursued, as well as others lying dormant pending the outcome of these.

The most important are the German criminal investigation; GM's US civil case; and a separate US investigation.

Why haven't I heard much about this before?
The affair has been simmering since 1993. But public interest ebbed after the first allegations. The issue has boiled over again now because German criminal prosecutors have just charged López and three ex-GM colleagues with embezzlement and theft of company documents.

Separately, a US judge has ruled that GM's civil case against López and some others can be heard under the Racketeer Influenced and Corrupt Organisations (Rico) Act – legislation which was originally drafted to combat organised crime.

Sounds bad for VW. Is it?
VW has come out fighting. It claims GM's allegations will collapse in the US court, while the German criminal case only involves López and certain colleagues.

Both sides claimed victory last week: German criminal prosecutors filed charges against López and some alleged collaborators, but did not involve VW or its top management in the alleged conspiracy.

Is López worth fighting for?
López made his name as GM's keenest cost-cutter. Reducing prices for parts and materials is crucial for a carmaker, as they account for up to 60 per cent of the value of a car. GM and VW are among the world's least cost-efficient carmakers. Having López on board has been a big help.

Is he just an axeman?
López's talents go further than squeezing suppliers. He has also revised the way cars are built by using more pre-assembled parts and even getting suppliers to work on the production line. He has great zeal when it comes to raising productivity and improving quality, partly by motivating staff from boardroom to basement.

A guru, then?
Yes, and, like most of them, a man with many detractors. Bitter components companies detest him. Some even allege he tore up contracts and passed information to others to get lower prices. Idiosyncrasies – such as a special diet to boost the brain – have invited derision.

But is he guilty?
That will be up to the courts. López, his colleagues and VW protest their innocence. GM claims that a search of López's office after he quit revealed that vital documents were missing. Even VW admits he brought material with him. It says, however, that anything confidential was shredded. However, a later search by German police of an apartment rented by two ex-GM managers who defected with him found it full of GM files.

How will it all end?
That's hard to tell. The dispute has turned personal – even political. Allegations of industrial espionage are serious enough. But the case also touches on the issue of intellectual property and how to handle executive defections at short notice, especially in a sensitive area and to a direct competitor. Then there is pride: the suddenness of López's departure and GM's ultimately unsuccessful scramble to retain him left egg on its face. Old scores are being settled. Recently, politicians have tried to get involved to stop the fight embittering US-German relations.

Should we anticipate an out-of-court fudge?
Could be – at least in the civil case – were it not for the personalities. VW, in particular, veers between aggression and appeasement. López's resignation this month, for example, was followed by a comment saying he could be rehired as a consultant. Ferdinand Piëch, VW's abrasive chairman, has in the past talked of "war" between the two companies. He has become less bellicose of late, but diplomacy is not his forte.

Haig Simonian

Peter Norman · Economics Notebook

Germany's pension time bomb

Advisers may be alert to the problem but action is another matter

It is rare to find praise of the UK in German newspapers. But it happened earlier this month, when Alexandre Lamfalussy, president of the European Monetary Institute, singled out Britain and the Netherlands as having greatly improved their budgetary positions through switching to funded pension systems.

His main point – made in an interview with the mass-circulation Bild Zeitung – was that Germany had so far failed to grasp the nettle of an ageing population and the prospects for its present pay-as-you-go pension system were bleak.

Shortly before Lamfalussy's remarks, German companies and workers were given a sharp reminder of the costs of the nation's pension system when Norbert Blüm, the labour and social affairs minister, announced that pension contributions would have to rise to 20.3 per cent of gross salaries in 1997 from 19.2 per cent this year.

The increase means total contributions for social security, which are shared equally by employer and employee, will increase to a record 41.9 per cent in 1997 from 40.8 per cent this year and are going in the opposite direction to that intended by the government, which wants the contribution rate below 40 per cent by 1999.

All that is bad news for a government determined to cut non-wage labour costs with the aim of making German businesses more competitive internationally. But the spiralling contribution rates have another message: they are a symptom of a system in crisis.

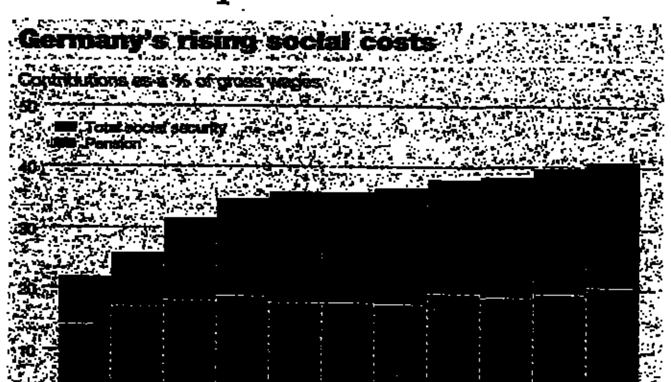
In its recent annual report, the government's council of economic advisers – the "five wise men" – said bluntly that it would be impossible to maintain Germany's generous social security provision.

They expressed serious doubts whether contributors to the statutory pay-as-you-go pension system could expect an income on retirement in 40 or more years' time that would be equivalent to those they are financing for today's pensioners.

Such expectations have underpinned what Germans call the "treaty between the generations". But demographic change is putting the pay-as-you-go system under huge strain.

The association of pension insurers has calculated that by 2030 the population of Germans over 60 years old will have increased sharply to the equivalent of 80 per cent of those aged between 20 and 59. That compares with 36 per cent today. Even allowing for existing government efforts to reform the system by curbing benefits and raising the pensionable age, it will be impossible to prevent contributions rising to more than 25 per cent of gross salaries by 2040, the association said.

That estimate is almost certainly too optimistic. A study by a special commission of the governments of Bavaria and Saxony has highlighted how the finances of the pension system are being undermined by changes in the world of work. Normal full-time employment is being replaced by informal work, supplied by part timers, casual labour and the black economy.



The study, written by Meinhard Miegel, head of the Institut für Wirtschaft und Gesellschaft, a Bonn-based think-tank, pointed out that there were five normal full-time workers, paying social security contributions, for every one informal worker at the beginning of the 1970s. By the mid-1980s the ratio was three to one. Now it is about two to one.

Extrapolating, the ratio will be one to one in 15 years' time. By then, millions will have a right to a full pension on the basis of a lifetime's contributions to the pay-as-you-go system in full employment. To finance their claims will be millions of contributors making sharply lower payments because of casual work. The income of wage and salary earners will be insufficient to support the beneficiaries of the social security system.

The Bonn government has set up a commission under the chairmanship of Blüm to investigate and recommend changes to the pension system. Another commission, also chaired by Blüm, has been set up by Chancellor Helmut Kohl's Christian Democratic Union to consider the same problem. But the terms of reference of the government commission are hardly revolutionary: it is charged with producing proposals to "develop further the tried and tested treaty between the generations in the light of demographic change".

It would be pleasing to report that the two pension commissions are ready to think the unthinkable in view of the gravity of the situation. Instead, and in contrast to the hubbub surrounding parallel efforts to reform Germany's complex and inequitable income tax system, there has been nearly complete silence on the pension front.

Blüm has made a few remarks in public, all of which indicate that he has little sympathy for radical reform. Yet, according to the wise men, radical reform is needed, and their report indicates how Germany could move gradually to a funded pension system.

The transition, they admit, would be difficult. But as a long-term project during the period of a working lifetime of about 45 years, it would be feasible. Several factors could work in its favour. First, worries about the security of the present system should make the young more willing to take on more responsibility for their security in old age.

Second, a comparison between returns from the existing system and a comparable investment in the capital markets shows that the latter yield far more, so that a switch to a funded system could show better returns. To bridge any gaps in the transition, the state could raise money by issuing bonds earmarked for the purpose, although a precondition would be a determined effort to cut other public borrowings to create room.

Working against this scenario are the short-termist priorities of governments, the need in Germany to achieve a consensus from all parts of the political spectrum, and the failure of the "five wise men" to be taken very seriously in Bonn. Germany's pension problem may be pressing. But decisive action is probably as far away as ever.

هكذا من الأصل

Parties vie over toughest stance on EU

By David Wighton, Political Correspondent

Mr Tony Blair, the leader of the opposition Labour party, yesterday attacked French proposals for a two-speed Europe as "dangerous" as he sought to rebut government claims that he would not stand up for British interests in the European Union.

Mr Blair also expressed concern at reports of a French plan for countries which did not join the single currency to be excluded from certain meetings on monetary union.

"These things could have a dramatic and dangerous effect on Britain's interests in Europe," he said.

Reports of the French plan were confirmed by Mr Malcolm Rifkind, the UK foreign secretary, who said it was one of the ideas canvassed at the weekend EU summit in Dublin. But he downplayed its significance. The suggestion had not generated "any significant interest", even among those countries which were likely to join a single currency, he said. "I am not losing any sleep over it," he told BBC television's *On the Record*.

In an attempt to underline the government's tough stand during the current round of European negotiations, Mr Rifkind said a number of British demands, such as over the 48-hour working week directive, were not negotiable. Although other countries appear equally adamant that they would not back down, Mr Rifkind dismissed this as a negotiating position. He said some of Britain's EU partners were holding out in the hope of a Labour government after the election which would be a "soft touch".

Responding to government claims that Labour would not use Britain's veto if it meant being isolated in Europe, Mr Blair said: "If it is in Britain's interest to be isolated through the use of the veto we will be isolated."

Although the government believes Europe is replacing tax as Labour's main electoral weakness, Labour strategists are convinced they can turn it to their advantage. "We want to turn the argument from who is prepared to be more isolated on Europe to who is going to get the best deal," said an aide to Mr Blair.

But there are signs that Labour's increasingly tough rhetoric is causing some concern in Europe. Mr Hans Van Mierlo, the Dutch foreign minister, warned that if Labour runs a Eurosceptic campaign in the election it would have little room to negotiate constructively in Europe afterwards.

Mr Blair yesterday repeated his pledge that a Labour government would fight to maintain the veto in areas such as defence, taxation, immigration and border controls. "Nobody is in any doubt about that in Europe and indeed many of them share our view that these should remain areas of unanimity."

But he added that the UK's interests in areas such as the single market and reform of the commons agricultural policy could be best furthered by giving up the veto.

Doubts over long-term care insurance plan

By Nicholas Timmins, Public Policy Editor

UK government proposals to make it easier for people to insure against the cost of long-term nursing home care are set to come under heavy fire.

An early version of a draft bill to be published next month shows there is no guarantee that the level of protection people believe they are buying will be the one in force when they claim.

In addition, instead of allowing individuals to protect £2 of their assets for every £1 of protection bought, as the industry had hoped, ministers now plan to limit the protection to £1.50 for every £1 bought – a "multiplier" of 1.5.

The two factors mean that the Conservatives hoped would give them an electoral edge over Labour on the increasingly sensitive issue of long-term care, now threatens to be controversial.

The bill is being published in draft form because of the complexity of the issues surrounding long-term care insurance. But the Conservatives also want it to give them a clear-cut programme to put to the electorate when the Labour party is promising only a royal commission.

The present draft, however, lets ministers vary the multiplier over time – to protect the Treasury should the schemes prove more popular than expected.

The effect of that, according to Mr Paul Seymour, chairman of the Continuing Care Conference which represents insurers, local authorities and the big pensioners' charities, is that someone could take out a policy when a multiplier was 1.5, protecting, for example, £25,000 of their assets, only to find when they claimed that the government had reduced the multiplier to 1 – substantially reducing their protection.

That, Mr Seymour said, would be "absolutely useless" because people would not take out policies if they knew the government could alter the bargain afterwards.

Bankers tackle Emu under the chandeliers

Report published today is likely to insist the City should be ready to cope with the euro

A 1930s boardroom designed by Sir Edwin Lutyens in Midland Bank's London headquarters was a suitably grand setting as bankers and UK company officials met last week to contemplate the start of European monetary union.

Amid ancient wall hangings and sparkling chandeliers, Midland's experts offered advice to their company clients on the issues they should be considering as they prepare for the start of the planned single currency, scheduled for introduction in January 1999.

Today the Bank of England publishes its latest report on the City of London's preparations for Emu. It will try to answer questions similar to those fired at the Midland officials by anxious customers.

The Bank's report, a checklist of the work under way, will provide an update of how planning has proceeded since the last assessment three months ago.

In response to some City institutions' concern that London could face a threat from other financial centres if Britain stayed outside Emu, it is likely to insist again that the City should be ready to cope with the euro.

The report is likely to confirm that the focus of preparatory activity remains in wholesale financial areas, including payments systems and markets.

This is sensible since in the early years of Emu, the use of the euro would be confined to the wholesale area. Not until 2002 when euro notes and coins are introduced would the retail sector be directly affected.

In addition, wholesale markets would be affected by the single currency whether the UK were in or out of Emu, while the retail sector is unlikely to be much affected if the UK stayed out.

The report will probably show that little progress has been made in resolving the controversy over Target, the future EU system for cross-border interbank payments.

The Bank's report is likely to detail the progress which has been made in the European Monetary Institute's preparations for the Central European Bank to begin its operations. The Bank of England may refer to its recent decision to use the new sale and repurchase – or repo – market in UK government bonds to control money market interest rates, a step which takes it closer to the system likely to be adopted by the ECB for controlling European interest rates.

The working party may conclude that even if the UK stays outside Emu there may be some areas in which it should adopt a European standard – although some bankers argue the UK should align itself with US rather than European practice. But it may also wish to avoid big changes to bond trading which would involve costly new technology, since this would impose a heavy burden on banks.

The issues which have arisen in the context of bond markets are also likely to apply to equity markets.

The Bank's report may discuss some of the work being done on what conventions the equity market might adopt after Emu and how it would handle the transition from the pound to the euro.

Ms Margaret Soden, senior manager of Emu planning at Midland Bank, said there was not a single common question being asked by the bank's clients at the regular Emu seminars. "They are all coming at the issue from many different angles," she said.

"Banks have wanted to know about payments systems, others have asked about conversion rates of currencies into the euro, about tax and accounting issues, whether their bank accounts would accept euro cheques and whether they would be charged for the use of the euro."

A popular query was how retailers would cope with the changeover to euro currency, scheduled for January 1, 2002 – one of the busiest days of the year for retailers.

While preparatory work in the wholesale market is still likely to take priority, the Bank's report today might also flag some of the issues that retailers will have to consider when the single is introduced.

Graham Bowley

UK NEWS DIGEST

Crackdown on polluting cars

"Green" roadblocks to drive smoky, badly-maintained vehicles off the road could soon become widespread. Draft government regulations to be unveiled in the new year would enable the police, on behalf of local authorities, to stop, test, fine, and if necessary, ban vehicles which exceed pollution limits.

Mr John Gummer, the environment secretary, argues that such vehicles account for "10 per cent of traffic but 90 per cent of the problem" of urban air pollution. The government is determined that the scheme will be self-financing with operating costs coming from fines.

The plan has been hailed by Friends of the Earth, the environmental pressure group, as potentially "the single most important measure to help tackle air pollution at one stroke". But it has been attacked as unfair by motoring organisations. The Automobile Association has argued that the fines will need to be unfairly harsh to make the plan profitable. *Leyla Boulton*

■ TELECOMMUNICATIONS

Multi-system mobile developed

A mobile phone operating as a cordless handset in the home and as a conventional cellular phone outside is being developed by Symbionics, a technical consultancy based in Cambridge, 80km north-east of London. The new handset, which should be ready for the market in two years, will be smaller and cost less than today's single system handsets. Electronics have been reduced to the size of a business card.

Symbionics says the phone will operate on three separate digital standards: GSM, the European mobile standard which is rapidly becoming the world standard; DCS 1800 a variation of GSM for the mass market; and DECT, a European standard for cordless telephones. In the UK, Vodafone and Cellnet operate GSM networks while Orange and One-2-One offer DCS 1800. The new phone would be able to switch imperceptibly between the three standards. For operators, the benefits will include the ability to roam between cellular networks both nationally and internationally. *Alan Cane*

■ AIR SAFETY

747 fuel tank changes on hold

The Civil Aviation Authority, the air safety regulator, said yesterday that it would wait for recommendations from the US Federal Aviation Administration before ordering changes to the fuel tanks of Boeing 747s. The US National Transportation Safety Board last week made several recommendations to the FAA which it said would protect fuel tanks from heat and prevent the sort of explosion that destroyed a TWA Boeing 747 after its departure from New York in July, killing 230 people.

The CAA said it expected the FAA to report within the next few days. It saw no need meanwhile to ground Boeing 747s. *Michael Skapinker*

■ EUROPEAN COURT

Guinness announcement expected

The European Court of Human Rights will rule tomorrow on whether Mr Ernest Saunders, the former chairman of the Guinness drinks group who was convicted of fraud in 1990, was denied a fair trial. A ruling against the UK could force it to pay compensation to Mr Saunders and curb the power of fraud investigators. The European Commission of Human Rights, which vets cases for the court, expressed the opinion by 14-1 in 1994 that Britain had violated Mr Saunders' rights by forcing him to give incriminating evidence.

MANAGEMENT

Well fed and growing fast

Tony Jackson asks how long management consultancy can carry on outstripping its clients

These are the salad days of management consultancy. The big firms, such as Andersen or McKinsey, are enjoying revenue growth of at least 20 per cent. More and more high-flying MBAs from the top business schools are turning to consulting as their first choice of career.

There is a snag. The growth rate of 20 per cent, which has been going on for several years now, is at least twice that of the corporations which pay the consultants' fees. How long can the industry go on outgrowing its clients?

The sources of that extra growth are familiar. First, the fashion for focus means corporations are giving up various functions, such as computing, where they have no particular expertise. In the jargon, they are outsourcing non-core processes.

Second, the global nature of business calls for internationally experienced executives, whom many companies are now unwilling or unable to produce for themselves. Expatriate managers are fearsomely expensive, and difficult to reabsorb into slimmed-down head offices on their return. In today's corporations, in the US especially, the globalising of markets is not always accompanied by globalising of staff.

Third, the downsizing of middle management means companies use consultants to staff one-off projects, where previously they could rely on their own pool of talent. In the old days, a senior US consultant remarks, corporations could always find 25 middle managers to handle a project, but might have to search for one or two key executives to head it. Nowadays, the problem is finding the 25.

Meanwhile, it is not clear that conventional consulting is growing faster than before. Last year's 20 per cent jump in revenues at McKinsey, according to Bill Matassoni, a partner, was probably a blip. McKinsey's underlying growth rate is just over 10 per cent.

"We still think of consulting as being something you do and then go away," Matassoni says. "Our founders always saw us as supplementing management, not replacing it."

Other consultants – what Matassoni calls "systems-driven" firms – annex whole parts of the business. "They will buy the client's IT staff and run the process better, because they're better at it," he says. "That kind of outsourcing is perhaps the source of the [extra] growth, and that's not consulting as I understand it."

But as Matassoni also concedes, the trend to outsourcing remains powerful. "It's all driven by downward pressure on IT transaction costs," he says. "You don't need to own as many assets as you used to, and that includes people."

A senior executive at another big consultant puts the point slightly differently. Think in terms of inventory, he says. Companies now hold far less physical stocks than they used to, thereby saving huge amounts of overhead. Similarly, they no longer employ armies of managers against the day when they will be needed. The consultants employ them instead.

The analogy is a seductive one, but it has a flaw. The reduction in physical inventory has come about largely through lean manufacturing techniques, whereby supplies are only called into existence as they are needed.

But managers cannot be created on demand, like plastic mouldings or auto components. The consultants are acting as warehouses for managerial talent, and that is an expensive business. This does not matter so long as they are growing at 20 per cent a year. What happens when the growth slows down?

"Then they're in deep yoghurt," says Maury Peiperl, a former consultant now with London Business School. "But in a way, that's okay. Consultants through people who are willing to put out incredible effort for huge amounts of money. They all know it's not a job for life."

The proposition that the growth rate will slow is not universally accepted. Peter Davis, European director of management consultancy for Price Waterhouse, argues the pressures on corporations which have produced the extra work for consultants will not go away.

Take the trend towards outsourcing IT, he says. "People are saying 'what's the cost of me having an in-house IT shop and keeping it technologically up to date? Isn't it better to use advisers who are forced to keep up to date instead?'"

Or take the trend to globalisation. "There is a cost to being global, and having an international mindset does require moving people around. For a US multinational, the cost of having a US person in Europe is very high. So companies are looking to consultants with global experience, who can produce world-class solutions."

And, says Bill Mattasoni of McKinsey, the warehousing of managers may have advantages. "The tricky thing is to find whether [consultants] are improving the functionality," he says. "Suppose someone started to buy up market research departments from 20 clients. Could they use the synergies to develop much better market research? If so, the client would be happy to pay more."

On the other hand, this kind of one-off shift from client to consultant can scarcely go on for ever. Surely there is a logical limit to the kinds of work which can be shifted in that way?

"Put like that, the answer by definition is yes," Davis says. "But I still think the growth rate will continue, though there will be a shake-out among smaller consultants. Clients are asking us to work on strategic partnerships, alliances and projects in ways they didn't before. And the global requirement will take in south-east Asia and eastern Europe, which the global player will have to respond to. So there will be other avenues of growth in the next few years."

There will be other threats as well. The growth in consulting has been most marked in the US, where corporations have been most active in restructuring their businesses. At the same time, US share prices have risen at an almost unprecedented rate in recent years. Sooner or later, Wall Street's great bull market will end. Can consulting avoid the fall-out?

"If the equity market determines the ability of firms to spend money," says Maury Peiperl of London Business School, "a big contract consultant is probably the biggest single item of discretionary expenditure. And there's a lot of latent suspicion among stakeholders and managers about spending that kind of money in the first place."

In the end, the growth prospects for consulting may depend on two linked propositions. First, runs the argument, the consultant represents the manager of the future: rootless and versatile, acquiring knowledge around the globe and dispensing it for a fee. Second, the corporation as we know it is becoming atomised. Big old companies will either cease to exist, or will end up as clusters of much smaller organisations.

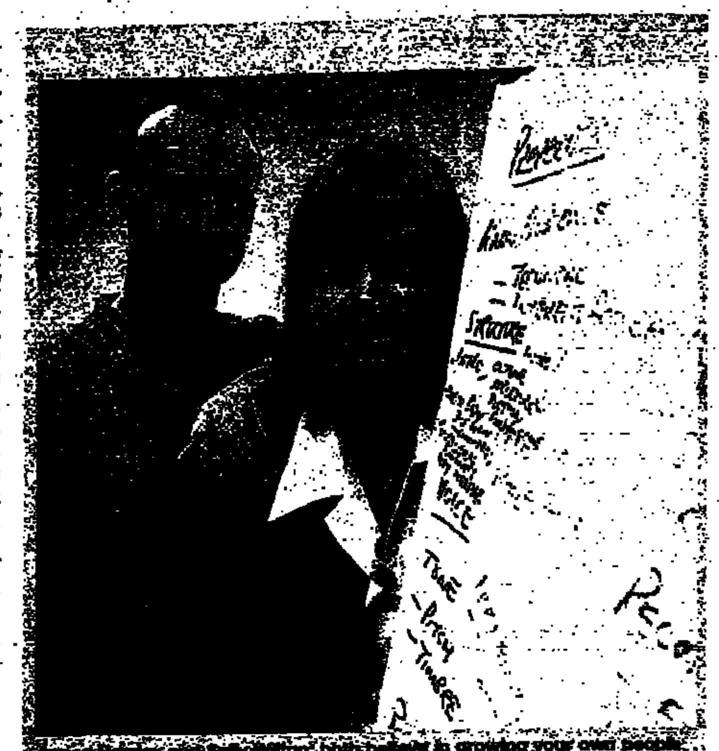
If that is the future, well and good. If not, the suspicion remains that something is wrong. It is one thing for corporations to relinquish functions in which they have no particular advantage. It is another for them to hand over their brains.

Something of that nagging feeling is expressed by Maury Peiperl: "I'm still a little puzzled how some of the big consultancies can produce such huge growth. I question the volume of money that changes hands. The market argument is they're providing a service. But aren't corporations failing in some way?"

The top earners

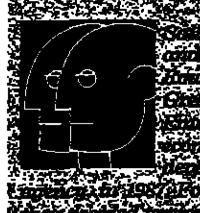
	Revenues 1995	Growth (%) over 1994	Number of consultants
Andersen Consulting	$4.2bn	22	40,000
McKinsey & Co	$1.8bn	20	3,650
Ernst Young*	$1.5bn	9	9,419
KPMG*	$1.5bn	[illegible]	[illegible]
Deloitte & Touche*	$1.4bn	[illegible]	[illegible]
Coopers & Lybrand*	$1.2bn	[illegible]	[illegible]
Mercer Management Consulting Group	$1.0bn	13	3,600
Price Waterhouse*	$1.0bn	26	5,201
Booz Allen & Hamilton	$785m	30	5,200
A.T. Kearney	$650m	[illegible]	[illegible]
Boston Consulting Group	$550m	[illegible]	[illegible]
Gemini Consulting	$548m	[illegible]	[illegible]
Arthur D. Little	$514m	20	3,000
Bain & Co	$350-375m	25	1,200
CSC Index	$200m	14	450

By courtesy of: Worldlink, the magazine of the World Economic Forum. *Consulting income only.



PARTNERS

etc limited



[illegible]

Sally: "Before I met James I had a rather jaundiced view of accountants. I thought they were boring and unimaginative, yet he's the exact opposite. [illegible]

[illegible]

James and I both believe in growing your own people. We want our staff to fulfil their dreams within the company so we look for self-starters. I enjoy being in business with him. He's one of the main reasons I want to continue."

Fiona Lafferty

Little cheer in cardboard cut-out careers

Lucy Kellaway

The decorations went up last week at Cap Gemini's head office in London's Shaftsbury Avenue. Not the fake tree with the gaudy red and gold bows that we have in reception at the FT. Instead, its decorations are 12ft cardboard cut-outs of men and women engaged in such activities as potholing, stuffing dead animals, or playing the sitar.

This has got nothing to do with Christmas; it is recruitment late 1990s style. The software consultant, like the rest of the industry, is having trouble hiring and keeping staff. It has decided that the solution is to tell the world that some of its employees have hobbies.

It feels that by doing so it is "celebrating" its staff, and showing they not only have skills in Oracle or whatever, but are diverse, creative folk.

Things have surely come to a sorry pass when the best way to advertise a job is to show what people could be up to when they are *not* doing the job in question. But unfortunately that is the state we are in.

In the software business as well as in many others it is not simultaneously possible to have a good job *and* a life. This has been the case for a decade at least, but it is only in the last year or two that companies have started to wonder whether they should do anything about it.

So does Cap Gemini's initiative in cardboard mean that it is now giving employees lots of spare time to pursue their other lives as taxidermists? It seems not. The company says its policy is unchanged: staff will still need to stay at work till 5am to meet a deadline, but at slacker times it does not mind if they go home before 7pm.

Morale is a funny thing, and possibly present and potential employees of Cap Gemini will feel creative and liberated just by looking at these giant cut-outs. But if I had been working half the night I would feel like dropping a rock on the head of my colleague the potholer as I passed through reception in the wee hours.

Has anyone in the Foreign Office ever watched telly programmes about business? The news last week that the FO is going to put nearly £1m towards making programmes about the export triumphs of British companies makes one wonder. It plans to distribute these programmes free of charge to TV channels all over world and give screenings to specially invited audiences.

Business and telly do not usually get along. It is just possible to make a programme about business that people will watch voluntarily.

But in that case it needs to be made by skilled, independent documentary makers and it helps if the business in question is something like opera *(The House)*, or, at a pinch, fast cars *(When Rover met BMW)*.

Even then it is uphill work: the makers of the Rover documentary had to spice it up with shots of John Towers putting on his cufflinks in his hotel room.

By contrast this export series will be anything but independent (half paid for by the companies themselves) and the results are bound to be like the standard corporate video only worse because exports do not make promising material.

It is just conceivable that in some far flung part of the globe where they do not have *The House* or anything halfway decent to watch on TV they might be quite chuffed to watch a puff programme about GEC and its overseas orders.

But whether those would be the same people who would open their cheque books and buy a power station is another matter.

I have the answer to all Christmas present problems. It is a gift that will do for people of all ages, backgrounds, tastes.

It is suitable for both colleagues and family. I am giving it to everyone this year from the under threes to the over 70s. It is both useful and fun, you can buy it without leaving your house, and best of all, it costs just £2.95.

I was in two minds whether to reveal the secret, because there is a small risk that some of my family or friends might be reading this column, and will thus have their surprise spoiled. However, in the seasonal spirit I am sharing the secret.

My present is a multicoloured ball made up entirely of rubber bands. You can throw it, bounce it, and endlessly fiddle with it taking the bands off and putting them on again. And of course you will never be without a rubber band again.

I can see it becoming a useful, ecologically sound executive toy for the next millennium.

My supplier of "Elastiball" is called Hawkin's and balls can be obtained by phoning 01986 782536.

BUSINESS EDUCATION

Samer Iskandar talks to recent graduates from ESCP in Paris about the problems of studying part-time

Surprise package

Jean-Claude, a civil engineer for one of France's largest contracting companies, had a premonition one afternoon when he heard that his company had lost a bid for a large project he had worked on.

He was part-way through a seminar on European law, one element in the MBA course that he was studying on a part-time basis. "Maybe I should have been in the office", he rues.

Only days after returning to work, he was "advised" to envisage a change of employer – although the company finished paying for the course and allowed him to keep his job for the four remaining months.

But Jean-Claude suspects his dismissal had been on the cards for a while, and attributes it to a change in the company's management: the manager who had sponsored him for the course had retired, and his successor was sceptical of the MBA's benefits for the company.

The problems faced by Jean-Claude, who graduated last month with an MBA from the Ecole Supérieure de Commerce de Paris (ESCP), Europe's oldest business school, are representative of those faced by many students who choose part-time learning.

These difficulties are exacerbated in France's rigid system of "Grandes Ecoles" – the ultra-selective elite schools. Unlike the UK where most students combine study and work, less than a quarter of MBA students in France opt for a part-time course.

Patrick Gougeon, the director of ESCP's MBA, is a strong proponent of part-time learning. "Leaving work to study has a high cost in terms of knowledge accumulation," he says. "Both students and employers benefit more if the course is seen as a partnership involving the company."

Gougeon dismisses claims that part-time courses cannot be international. "Three-quarters of our students are either foreign, have worked for foreign companies, or travel extensively for work," he says.

Bo Ly, a graduate of 1996, proves the point. A Cambodian by origin, he was working in Cairo for a French engineering company which transferred him to Paris for the duration of the MBA. His MBA complete, he has now transferred to Singapore as the company's representative for south-east Asia.

It is undeniable, however, that part-time MBAs pose distinct problems for faculty, students and employers. One of Gougeon's main challenges has been to increase the proportion of women students, which has been hovering around 10 per cent. With the average age of part-time students in their mid-thirties, many potential students face a tough choice between an MBA and family commitments.

He also cites "chauvinism" in French professional circles. "The glass ceiling also applies in our world," he says. "The 'happy few' sponsored by their companies for an MBA are mostly men."

Another ESCP graduate of '96, Laurent, was formerly a project manager in purchasing at Renault, the French automobile manufacturer. He believes the MBA ultimately prompted his disillusionment with the company.

After learning about human resources management in the course, he found it difficult to accept Renault's reliance on so-called "career curves", which map future responsibilities and earnings of new recruits, from the day they join until retirement, based on degrees and psychological tests, leaving little room for advancement by merit.

Laurent left Renault after being told that the MBA "would not justify moving [him] to a higher curve". He is now a business unit manager at a large Danish automobile component supplier.

Employers have their share of surprises too. The French business units of ABB-Asea Brown Boveri, the Swiss-Swedish conglomerate, strong believers in part-time learning, have sponsored two executives on ESCP's MBA every year since its inception in 1993. ABB pays the FFr130,000 (£15,000) costs and allows flexibility in working hours (students leave work early for classes on Thursdays, and take a whole afternoon off every other Friday.)

So human resources managers were unprepared for what happened last summer, when they offered to sponsor two of ABB's "most promising engineers" on the part-time MBA. Both replied that they would much rather spend their free time with their families.

Others manage to combine study and family. In ESCP's class of 1996, Anne, a systems manager for the Paris public hospital chain, gave birth to her daughter just weeks before graduating, while Michel and Maria, both sales and marketing executives, decided to get married, just a few days after a corporate finance seminar on mergers and acquisitions.

A clash of cultures

Small businesses are on course to market in America

Lyrics from rock bands Stone Roses and Sister Sledge may seem a far cry from the latest management jargon.

But Paul Birch, MD of Revolver Music, the bands' record company, has recently returned from a one-week course in consumer marketing at the Kellogg Graduate School of Management in Illinois.

The cost of the residential course was paid for by the UK Department of Trade Industry's 'North America Now' campaign – the scheme is sponsored by Ellis Goodman, an entrepreneurial Brit now living in Chicago. Air tickets were donated by British Airways.

The DTI provides 28 scholarships a year to managers from small companies

The DTI campaign provides 28 scholarships a year, in two tranches, to managers from small companies which want to increase exports to North America. In each tranche 10 places are at Kellogg and four are at the Richard Ivey School of Business at the University of Western Ontario.

The DTI also helps set up executive attachments to corporations, which last a further week. Birch worked with Sony in New York, learning how records are marketed in the US.

Robert Waring, group marketing director of BRT Barings, has also just returned from Kellogg where he studied on the week-long business marketing course. During his second week in the US Waring worked with a steel company. "It was interesting to see how they marketed products using E-mail and the Internet, how they managed sales forces using laptops, how they generated quotations and so on," he says.

Applications close on December 31 for courses in the spring.

Della Bradshaw

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Managing the year 2000 Transition
Companies are only now coming to grips with the potentially devastating consequences of the Year 2000. Mismanaging this transition either from a computing or a business perspective could sound the death knell for a company. Rather than focus on the technicalities of changing computer code this workshop focuses on the managerial issues from both a business and IT perspective. essential to this transition process.
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Provides a thorough understanding of the concepts and practical applications of project finance. Applicable for those in project finance departments, corporate bankers, professional advisers with clients involved in project finance, including accountants and lawyers, and finance staff from major companies.
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London.
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JANUARY 21
HINWIs 97
The tenth annual definitive tax planning conference for advisers to the wealthy. In response to the Chancellor's Budget announcements, the speakers will include coverage of the crackdown on loopholes and the new measures to be introduced as well as last minute pre-election planning.
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JANUARY 21 1997
Competition Policy & The National Interest
A important and topical conference with contributions by The Rt Hon Ian Lang MP, Dr Kim Howells MP, Mr Graeme Odgers, MMC; Mr Geoffrey Horton, Office of Fair Trading and Ms Clare Spottiswoode. The conference is sponsored by Freshfields and Price Waterhouse.
Details from Cityforum
Tel: 01225 466744 Fax: 01225 442903
LONDON

Regulating Commercial Activity on the Internet
It is now widely accepted that the Internet is not an unregulated environment for commercial activity, but that it is in fact heavily regulated by the "accidental" application of national laws devised for more traditional forms of commerce. The pressure for specific regulation for Internet commerce is growing fast, both from legislators who perceive dangers to be guarded against and, equally important, from commerce which needs clear statements of its regulatory obligations.
The Goal is to enable participants to develop coherent and effective contracts, in line with regulation of the Internet and which is compatible with the advance of Internet commerce.
This London University Seminar will be held at Unisys International Management Centre near Nice, France. For further info contact: Rain Geerdes (33) 493323000 fx (33) 49332307018 or Chris Reed at the University (44) 171 975 5125
France

JANUARY 29 1997
Venezuela, Colombia & Their Andean Neighbours - Investment & Trade
Contributions by Jose Ocampo, Alberto Poletto, Antonio Casas Gonzalez, Enrique Garcia and Richard Watkins. Geoffrey Bell will lead a panel on the prospects for major Venezuelan companies and business sectors. Enrique Bascur of Bankers Trust will lead a similar panel representing important Colombian organisations. The conference, in association with Canning House, is sponsored by Banco Mercantil with Bankers Trust and Latinvest.
Details from Cityforum
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FEBRUARY 3-5
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"Shareholder Value Sets the Course", "Revolving Credit after Deferred Debit - the Marketing Challenge of the Century", "What Future for Chip in an On-line Environment?" these are the underlying themes of this major industry event. Workshops will brief you on Cards Law & Regulation, Merchant Services and Risk Management. Speakers from: Novus, GE Capital, Citibank, American Express, ANZ, RBS Advanta, Cetelem, Barclays, Banksys ... and more. For a full list of speakers and programme details contact Lafferty Conferences (+353 1) tel: 6718022, fax: 6713594
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Companies are increasingly using Intranet technology for their own use allowing employees to share information and collaborate on projects. This major conference and exhibition explores the issues related to the design, implementation and management of these intranets.
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Tel: 0181 543 6565 Fax: 0181 544 9020
E-mail: mick.gaynor@business-intelligence.co.uk
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The 13th Annual FT London Motor Conference
This major automotive event will once again bring together an experienced panel of industry speakers, to share their views on the changing relationship between manufacturers and their suppliers. Key speakers include: Professor Garel Rhys OBE, SMMT *Professor of Motor Industry Economics*, University of Wales: Dr Walter Hasselkus, *Chief Executive*, Rover Group Limited: Frans Boot, *General Manager of Group Purchasing*, Volkswagen UK Limited; Nick Evans, *Director, Intelligent Transport Systems Programme*, SRI International; Peter King *Chief Executive*, The Car Group PLC
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FEBRUARY 19-20
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This is Europe's leading annual conference and exhibition on the use of non-financial performance measures for driving business strategy. An outstanding programme presents some of the world's leading thinkers, practitioners and case studies.
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Tel: 0181 543 6565 Fax: 0181 544 9020
E-mail: mick.gaynor@business-intelligence.co.uk
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Companies are only now coming to grips with the potentially devastating consequences of the Year 2000. Mismanaging this transition either from a computing or a business perspective could sound the death knell for a company. Rather than focus on the technicalities of changing computer code this workshop focuses on the managerial issues from both a business and IT perspective. essential to this transition process.
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FT New Media and Broadcasting
Next year's event, the fifteenth in the series, will examine the key issues facing the satellite, cable and terrestrial broadcasting industry going forward into the digital age; the business case for new digital services; opportunities for new entrants; managing the transition from analogue to digital - the marketing and customer service challenge; prospects for digital terrestrial (DTT); broadcasting and the internet; the radio renaissance - the impact of digital technology on market structure.
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MARCH & JUNE, 1997
Two Major FT Metals Conferences
FT Conferences, with CRU International, are organising two major events in 1997. The third annual World Steel conference on 4 & 5 March and the World Aluminium conference, in its second year, on 23 & 24 June 1997.
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Tel: 0171 896 2639
Fax: 0171 896 2696/2697
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MARCH 24 & 25, 1997
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Next year's annual conference addresses the challenges facing the pharmaceutical majors in maintaining their track record for healthcare innovation. High level speakers include: Dr Franz Humer, Chief Operating Officer, F. Hoffman-La Roche, Dr John L Zabriskie, President & Chief Executive Officer, Pharmacia & Upjohn Inc., Dr George Poste, Chairman, Research & Development, SmithKline Beecham; Mr Derek Smith, Chief Executive, King's Healthcare, NHS Trust.
Enquiries: Siân Fancourt, FT Conferences
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APRIL 15 & 16, 1997
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The FT World Water conference presents a unique forum for high-level speakers and delegates to examine the major issues facing the global water industry, as countries are realising the need to improve their increasingly inadequate water supply infrastructure. Whilst many governments seem keen to open up their water industries to outside expertise, the reality of entering these markets often does not live up to its promises.
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LANGUAGE COURSES

BUSINESS EDUCATION

Smoke slowly clears on bar-code data battlefield

An all-out war for supermarket checkout information has cost two market research companies dearly, reports **Roderick Oram**

Losing £25m on revenues of £50m last year was the price A. C. Nielsen and Information Resources Inc paid to clobber each other in the UK market for consumer goods sales data.

It was the fourth year in their bloody war – and last, the protagonists now swear. Thanks to senior management changes at their US parents and UK subsidiaries, some semblance of rational behaviour is returning to this once-profitable market.

The detailed sales data the two companies buy from supermarkets and sell to consumer goods makers is the lifeblood of the retail sector. On it hinges new product development, promotional campaigns, brand building and other marketing activities.

Nielsen and IRI kept up tolerable services during their all-out war. But retailers and manufacturers grew worried the duopoly was neglecting big-picture developments such as pan-European data, or the collection of ever more accurate and detailed sales information such as that related to individual products and stores.

"Thank God we've got some sense and order back," says the market data manager for a multinational consumer goods manufacturer.

The war started in the US in the mid-1980s when IRI, an innovative software and data company, muscled in on Nielsen's near-monopoly in consumer sales data. For decades Nielsen had used physical audits of grocery stores to collect data, whereas IRI latched on to new point-of-sale scanners for its raw material.

"It took us about seven years to respond in the US," says Robert Lievense, Nielsen's pesident worldwide from January 1995. "We lost almost half our market share in 10 years to an innovative competitor."

IRI set its sights on the UK in 1992. Nielsen built defensive bunkers. "'Don't mind the cost but win the war'," ordered Dun & Bradstreet in the US, then Nielsen's parent, says Lievense.

Fees that Nielsen and IRI paid to UK retailers for the scanner data escalated alarmingly as the retailers exploited their power and the duopoly's disarray. But the prices the two charged their clients sagged dramatically. IRI says Nielsen, for example, offered discounts of up to 30 per cent if clients took data from a bundle of countries across Europe.

Nielsen says an additional factor was at work. It admits that the switch from physical audit to electronic data collection was difficult. "In 1994 through early 1995, we didn't handle that transition well," says Lievense. Receiving the retailers' scanner information was "like putting a firehose in your ear", and filtering out the exact data Nielsen wanted required software skills in which it was weak.

The financial toll was heavy. IRI says it invested £53m in Europe of which some £30m was in the UK from 1992 until mid-1996. Yet its UK operations lost £12m last year and will lose £10m this year. Companies House records show that losses by Nielsen's UK holding company on market research (including additional services besides sales data) escalated from £1.8m on revenues of £49.2m in 1993 to £18.3m on £45m in 1995.

"Their strategy was to strangle us," says Tim Bowles, president of IRI's European information services since mid-1995. In 1994 IRI complained to the European Commission about Nielsen's allegedly anti-competitive practices, such as bundling services across Europe and demanding exclusive data supply agreements from retailers.

Last May, the Commission opened formal anti-trust proceedings against Nielsen. To settle the complaint, Nielsen pledged two weeks ago to the Commission that it had stopped the practices. Although IRI is still suing Nielsen in the US for $1bn of damages for its allegedly anti-competitive behaviour, both companies are contrite and determined to compete on a more rational basis. "Previous management had made the competition personal," says Lievense.

A big change for Nielsen was its spin-off by Dun & Bradstreet in a stock market float earlier this year, coupled with management changes. A root and branch UK reorganisation and new instructions from the US – "Mind the costs and don't lose the war" – will return UK operations to profit next year, Lievense says.

IRI has had its own travails. The heavy and long-term losses abroad triggered a 60 per cent drop in its stock price in early 1994 from which it has not recovered. To help fund its development it subsequently sold its proprietorial database software to Oracle but kept the rights to the consumer goods applications for it.

Bowles has shaken up IRI Europe in his first year. To better match Nielsen's geographic spread across Europe, IRI has been forging alliances with market research companies such as GfK in Germany and Middle Eastern Market Research Bureau in eastern Europe. "The business plan is to be profitable by 2001," he says.

For IRI and Nielsen, the crucial financial issue is the fees they pay retailers for the scanning data. Bowles estimates UK fees peaked at six times those in France; Lievense estimates 10 times. Both companies have been trying to persuade retailers the fees are unsustainable.

According to the commercial research manager of one supermarket chain: "All of us have had debates with them about prices for data and we've come down to realistic levels."

Nielsen had tried to force the pace last autumn when its contract with Safeway expired. It made a take-it-or-leave-it offer to the UK supermarket chain at a fraction of the old fee, so Safeway withdrew its data. For most of this year, Nielsen has had to estimate Safeway data from consumer panels. Recently it re-secured Safeway at a fee lower than the old one but much higher than its previous offer.

Overall, the fees paid for collecting data are down as much as 50 per cent and probably have further to go, says Lievense. Others in the industry say he is over-stating the decline to date.

But some data users, particularly manufacturers, are arguing for a more radical change in the relationship between retailers, data companies and manufacturers. Not only do they want higher quality – much more accurate control of bar codes and better European data integration, for example – but they also believe lower fees for data collection and lower prices for data analysis would benefit everybody.

By exploiting such data, retailers and manufacturers could serve consumers much better. "It should be a two-way street between us and the retailers," says the market data manager for a multinational maker of food, household and personal products. "If people are serious about efficient consumer response and category management, we should be sharing the data at little or no cost. Then we can add value through our products for the retailers."

But that is a sophisticated argument which IRI, Nielsen and the manufacturers will have difficulty selling to supermarket chains. After all, the chains are collecting millions of pounds a year in fees from selling data – a virtually cost-free by-product of their checkout counters.

Tres chic in Taiwan

Laura Tyson describes one of Asia's toughest markets

Taiwan has an almost insatiable demand for foreign consumer products, especially food and drink. But once-naive consumers have become sophisticated and demanding since Taiwan opened its markets to imports in the early 1990s.

"It's easy to bring foreign brands in, but very difficult to handle them well afterwards," says Brett Aaron, director of Bringing America's Best Inc (Babi), the Taiwan distributor for Quaker Oats' Snapple drinks as well as Kona coffee and Pepperidge Farm cookies. "A product needs an incubation period. You can't just go from zero to 60 in this market any more."

The success stories are those products that have been carefully researched and nurtured. In fact, because of the "curious brand-switching" that goes on in Taiwan, keeping a brand's head above water is more challenging than in other Asian markets, says Garth Britton, Taiwan general manager of Nestlé, which is the most successful of the foreign food companies in Taiwan.

"Taiwanese consumers need to be constantly entertained, surprised and pleased," he says. "Brand loyalty is very hard earned here. Where it exists, it is to a company rather than to a product. There's a tremendous expectation for new products, and [a] desire for experimentation not seen in other markets."

Taiwanese eating habits are as much influenced by the high number of working women compared to other Asian countries as by the island's recent rise to economic prosperity, says Britton. "This has an enormous effect on lifestyles: quality, convenience and availability become paramount."

As Taiwan is a Chinese society, it is often thought to be similar to other markets with large Chinese populations.

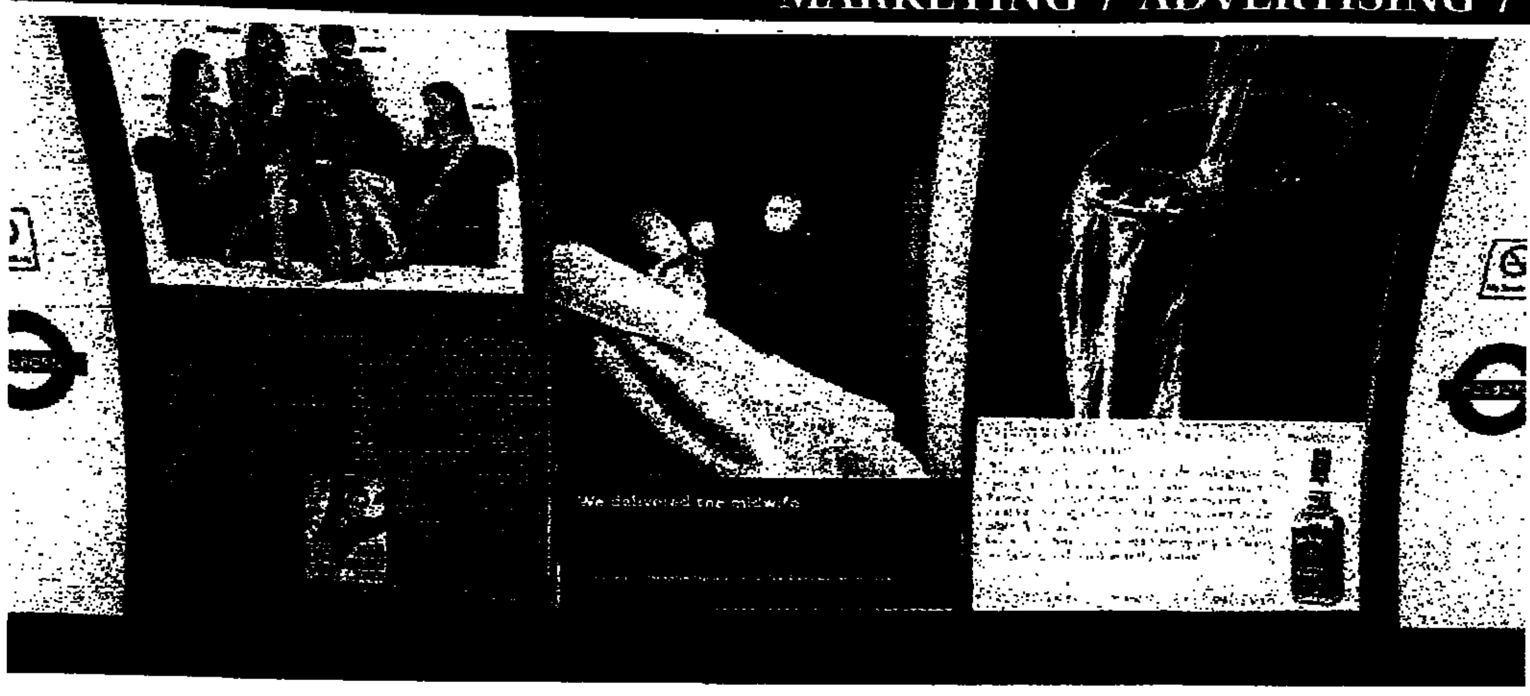
But that is where some foreign companies trip up, warns Jim Cumming, chairman of Tait Marketing & Distribution, a Taiwan-based concern which has interests in Hong Kong, China and Vietnam as well as in Taiwan.

"I've seen companies come in with the same strategy used in Hong Kong, Malaysia or Singapore and fail," he says. "What many people don't realise is [that Taiwan] has a lot more in common with Japan in terms of taste, packaging and presentation. If a product is successful in Japan, it's more likely to be successful here."

Snapple was an exception. The fruit-based soft drink flopped in Japan when it was launched some years ago with a conventional mass-market campaign, but in Taiwan Babi has used a cool and collected approach. Babi has marketed Snapple, which has a grassroots appeal in the US, as a premium brand.

Instead of an expensive advertising campaign, Babi uses interactive direct marketing techniques. "Our strategy has been to actively involve the consumer, which is highly unusual for the Taiwan market. We are trying to bring out the wacky, zany culture of Snapple," says Aaron.

Elements of the campaign have included radio call-ins, newspaper ads to which readers can fax back a response, and promotions.



Though they are all dubbed "advertising", different types and classes of ad work quite differently

Brendan Corr

Admen strive to embrace the appliance of science

No-one in advertising searches for universal rules any more. Yet the ad business is becoming more scientific than hitherto, says **Winston Fletcher**

Will advertising ever become a science? Will it be possible to predict the exact outcome of a new *campaign*? Are there laws of advertising which could, like the laws of physics and chemistry, ensure that results achieved in the past can be replicated in the future?

Can the precise contribution made by advertising to sales be quantified? Will people ever stop parroting Lord Leverhulme's famous (albeit vacuous) maxim: "Half my advertising is wasted, but I've no way of knowing which half"?

These knotty questions, which have doubtless been causing admen grief since advertising was first invented – said to have been in Pompeii in the 1st century AD – are particularly salient at present, for several conflicting reasons.

On one hand, a survey just carried out by the UK trade magazine *Campaign* has revealed that the great majority of those employed in advertising are naively sceptical about whether their work works at all.

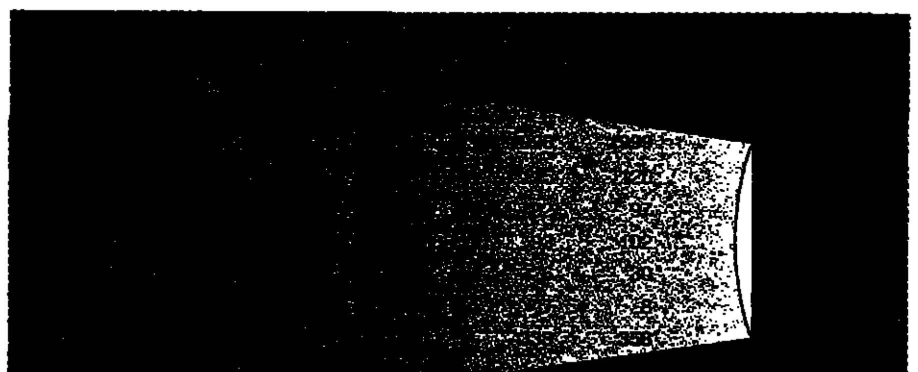
And, echoing that scepticism, several of advertising's creative luminaries have bad-mouthed the recently announced results of this year's advertising effectiveness awards organised by the UK's Institute of Practitioners in Advising (IPA).

In past years this would have been sacrilege. The IPA awards, which acclaim results rather than pure creativity, have always been treated with reverence – hailed and glorified as beacons of light in a hazy business. But not this year. This year, say the malcontents, the results were far more ambiguous than they ought to have been.

At the same time, on the other side of the argument, an important study of how advertising works is being carried out at the London Business School, and the early findings look encouraging.

Similar initiatives are under way in the US. Everywhere, data correlating advertising and sales results is being accumulated. And, using new software programmes and econometric techniques which separate out the variables in the marketing mix, it is often now possible to show precisely what effects have been achieved per advertising £1 or $1 spent. The sceptics, in other words, may soon have to eat their philippics.

Does this mean advertising is finally on its way to becoming a science? It depends, I'm afraid, on what we mean by a science, though it is certainly becoming easier to show whether – indeed, how – advertising has affected sales.



Retailers have grown especially adept at such analyses. I would bet a jar of Hellman's to a broken wire basket that much of the recent boom in retail advertising is attributable to the simple fact that retailers now measure advertising's sales effects with considerable precision.

When the great department stores of London and New York started to use advertising prolifically a century ago, they believed that £1 or $1 spent on newspaper advertising would mean £2 or $2 in the till.

Today they know pretty well exactly where they stand. Bar-coding, stock control and faster turnover have increased the speed and sophistication of their calculations. Big retailers would quickly quit pumping millions into the media if advertising didn't make their check-outs go *beep beep beep*.

For manufacturers of consumer branded goods such quantification is still, as it has always been, a tad trickier. But with a little planning it can usually be done. With faster and more accurate sales audits, continuous consumer purchase panels, awareness tracking studies and the panoply of modern information technology, advertisers can stop guessing and start assessing.

So the scepticism of those who work in advertising agencies is not, it seems, shared by all their clients. Nonetheless, a recent IPA survey showed that a distressingly high proportion of advertisers are still unaware of the evaluation techniques available. These days, only advertisers who spend tiny sums, or who enjoy playing ostrich, have a valid excuse for not quantifying their advertising results.

From that point of view, advertising is steadily becoming more scientific, and the process will no doubt continue. Understanding the past is a crucial first step towards planning for *the future*. But, as financial ads always tell us, past results are no guarantee of future performance, and the pre-testing of advertising continues to be notoriously unreliable. Not even its most zealous protagonists claim it to be scientifically accurate.

As long ago as 1923 Claude Hopkins, one of advertising's great copywriters, published a book called – would you believe? – *Scientific Advertising*. In it, he wrote: "The time has come when advertising has, in some hands, reached the status of a science. The causes and effects have been analysed until they are well understood. The correct methods of procedure have been proved and established. We know what is most effective, and we act on basic laws. Advertising, once a gamble, has thus become, under able direction, one of the safest business ventures."

To which, with the wisdom of hindsight, the only appropriate response is: "Flapdoodle". Nonetheless, Hopkins' words emphasise how much advertisers have long wanted advertising to be predictive, accountable – *scientific*.

Thirty years after Hopkins, in the aftermath of the second world war and the atom bomb, when advertising began to boom and science seemed all-powerful, a new generation of advertising men, led by the brilliant David Ogilvy, devised new quasi-scientific principles.

Most of Ogilvy's rules were aphoristically simple and memorable: "The two most powerful words you can use in a headline are FREE and NEW", for example, or "Always use testimonials in your copy". But probably the most influential "scientific" theory developed at that time was the "unique selling proposition" methodology, pioneered by the Ted Bates agency and still widely, if loosely, applied.

Nobody in advertising, however, searches for such universal rules any more, partly because television, being both a newer and a more complex medium than print, is innately harder to generalise about. But it is also because the UK's IPA effectiveness awards have conclusively demonstrated that advertising operates in a plethora of ways.

Launched in 1979, the IPA awards are now established – despite the recent carping – as the most authoritative collection of advertising case histories in the world. They have become the model for similar schemes in many other counties. Taken together, these case histories, now numbering approximately 600, reveal a spectrum of ways in which advertising functions.

Though they are all dubbed "advertising", different classes of ads work quite differently. Retailers' ads work differently to manufacturers' ads; direct-response ads differently to image ads; recruitment ads differently to corporate ads; campaigns for new, unknown products differently to campaigns for old, well-known products. And so on.

Naturally, nearly all different classes of ads aim to increase sales. But seeking universal scientific, predictive laws for advertising is unlikely to succeed. Worse, the temptation to treat all advertisements as though they functioned in the same way is likely to minimise their impact.

If Hopkins' or Ogilvy's rules were adopted by every advertiser, ads would grow increasingly similar. But it is the essence of effective advertising that it should be different from other advertising. Otherwise, it fails to get noticed. Ads which are not noticed cannot be remembered. And ads which are not remembered cannot be acted upon.

The sciences that advertising should aspire to emulate are not physics and chemistry but biology and botany. Classification is the name of the game. Using the IPA case histories and similar data, it is becoming possible to group certain types of campaign which resemble each other, like species.

Members of the same species generally behave alike. So should species of advertising, once they have been defined and classified accurately. But even members of the same species behave differently in different circumstances. So, inevitably, will advertisements – no matter how similar. And that is as close as advertising will ever come to being a science.

In many respects, advertising is very like farming. Farming is about maximising the yield from an investment. So is advertising. Farmers increasingly use scientific methods to improve their efficiency.

Some farmers are much better at the job than others. Over recent years farmers have greatly improved their forecasting techniques. But, as there are so many imponderables, farmers can never be certain about the future. Nor can advertising. But, like farming, advertising can become a great deal more scientific than hitherto.

Winston Fletcher is chairman of the UK advertising agency Delaney Fletcher Bozell.

Tim Jackson

Hooked on the phone

Demon Internet, one of Britain's larger Net service providers, has recently published an interesting statistic. The company claimed that its subscribers, numbering more than 50,000, account for 1 per cent of local-call phone traffic in Britain. Yet there are more than 20m installed residential phones, so Demon subscribers make more than four times as many local calls as the average customer.

In the US, where local calls are free in many areas, the disparity is even more marked. According to numbers compiled by Bell Atlantic, US West and Pacific Bell, phone usage by people surfing the Net is affecting utilisation of the phone network as a whole.

The three companies reported that average phone usage during the busiest hour of the day was between 4.75 and 9.3 times higher in switches – the computers marshalling phone calls – serving Net service providers' phone numbers than in the rest of the network.

If Net use can push average switch use up by a factor of nine, it is a fair bet that customers hooked up to the Net spend between 30 and 100 times as long on the phone as the average subscriber.

The impact of these trends is only just beginning to be studied. But already there are several useful lessons to be absorbed, most obviously the lesson for customers. Many potential Net users are attracted by the low monthly charges quoted in magazine advertisements by Net service providers (ISPs). But they fail to take account of the fact that the phone bill, not the ISP bill, represents the chief cost of using the Net.

According to figures published by the Organisation for Economic Cooperation and Development, the phone bill accounts for 61 per cent of the cost of Net access across the OECD as a whole. The figure rises to nearly 69 per cent for customers who spend 20 hours a month online during the day, when calls are more expensive.

But there are lessons here for ISPs, too. According to industry legend, the principal reason that most ISPs offer flat-rate charging is historical.

In the early days of the business, most ISPs were so busy keeping their systems running as customer numbers mushroomed that they had neither time nor technical expertise to develop a billing system to measure how much each customer used the service.

Once flat-rate charging took hold, customers were reluctant to relinquish it, so even though more sensitive charging systems are possible in practice, market pressure is forcing the few remaining players who charge by the hour to start offering flat-rate tariffs, too.

Gian Pablo Villamil, telecoms specialist at Andersen Consulting, makes an amusing comparison between the uncertainty created in the Net industry by fast technological change and sharp growth in customer numbers, and the uncertainty created in Peru during its period of hyperinflation.

In Peru, most restaurants found it impossible to rewrite their menus daily to reflect rising costs, so two new charging practices evolved. One was to price food by the kilo, as in salad bars. This is the equivalent of leased-line, capacity-based pricing for corporate Net access. The other was to offer all-you-can-eat menus, the equivalent of the ISPs' flat-rate monthly tariff.

Customers change their behaviour when prices differ. In America, the availability of free local calls makes average Net use by dial-up customers far higher than in Europe.

The result is that ISP monthly tariffs are lower in Europe than in the US, apparently bucking the trend that most technology products cost the same in pounds in Europe as they do in dollars in the US. That difference helps explain why so many American online services and ISPs are expanding in Europe. They know that even with lower prices in Europe, the margins are higher because monthly usage is lower still.

What lessons can phone companies, learn from all this? An obvious lesson is to stop giving away local calls for nothing. Although there are obvious benefits, the effect of it is to throw the network into economic chaos when a minority of users start spending dramatically longer on the phone than others.

Unfortunately, most local carriers in the US could not charge for local calls even if they wanted to, as their regulators would not allow it. The regulators have a point, as the true cost of delivering a local call is far closer to zero than to the $3.50 an hour charged by BT.

But the pressure facing local American carriers is only going to increase. Now that America Online has switched to flat-rate charging, 7m users are going to stop watching the clock and start making much greater use of the local phone system. The result will be a *tsunami* of local calls.

Cutting international and long-distance tariffs, and increasing local ones, is a good way of moving prices closer to costs. That may be little help: the growing installed base of cable TV will allow residential customers to use broadband networks without paying anything at all per minute. But in the medium term, a phone company that has its tariffs in order should expect to make money – not lose it – from the consumer Net boom.

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Cyber sightings

● During its recent travails in Nigeria, oil giant Shell pondered the effectiveness of the Internet as a campaigning vehicle. Now it is attempting a pro-active, online approach by revamping its site (*www.shell.com*) to get away, it says, from the corporate-brochure style adopted by many other companies. To its credit, the site's corporate coverage is comprehensive and well organised and – in its spirit of openness – includes links to organisations that have been highly critical of it in the past, like The Body Shop and Greenpeace.

● John Wachowicz is a finance professor at the University of Tennessee whose personal site (*http://funnelweb.utcc.utk.edu/~jwachowi/wacho_world.html*) is excellent, proving (again) that an individual can often put together a more useful site than *many corporations*.

● The Sushi World Guide (*www.sushi.infogate.de*) is a guide to Japanese restaurants outside Japan, and features more than 400 addresses in 75 cities, listed by continent, country and city, as well as good links and literature on Japanese cuisine. Nicely done.

● Long a reliable info source for stockwatchers, Moodys Investors Service has put up an economic index bulletin (*www.moodys.com*).

● IPO Monitor online (*www.ipomonitor.com*) is a nicely presented source of information on tracking initial public offerings.

● If your business is considering relocation within the UK, the case for Sheffield is made through a site promoting the city's cultural industries quarter (*www.syspace.co.uk/ciq*), which is home to more than 100 businesses with cultural interests, including designers and software houses. It forms part of the European Regional Development Fund's NEO project.

● A site that bills itself as "the most comprehensive listing of people named Rosemary on the Web" (*http://members.aol.com/rkwest5/rosemary.html*) is, well, hard to resist. Includes also Rosemary the Horse and Rosemary the Border Collie. Addictive, in a weird sort of way.

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BUSINESS TRAVEL

Travel News • Roger Bray

Bosnian delay

Switzerland's Crossair has postponed the launch of a service between Zurich and Sarajevo. It had hoped to spearhead the return of western airlines to the Bosnian capital but the airline remains concerned that there would be too many flight delays. Crossair is concerned at the lack of an instrument landing system and unhappy about snow-clearing arrangements and aircraft de-icing equipment.

The carrier is now working with local officials and aviation experts from the peacekeeping force in an effort to bring the airport up to scratch. The hope is to start flights some time next month.

Elegant toilets

Japan Airlines is introducing lavatories designed specifically for women on its domestic flights. Called "elegance rooms", they will be supplied with skincare products and fitted with a mirror allowing passengers to check how they look from the rear.

The airline says: "We ran a trial in October and it proved very successful. A quarter of the 20m-plus passengers who fly on our domestic services each year are women." In principle, the airline says, male travellers can use them, too. "There's probably no way we could enforce absolute discrimination on an aircraft."

Faster to London

Normal London rush-hour traffic can be a nightmare for passengers arriving early in the day at London's Gatwick airport, so UK airline Virgin Atlantic plans to provide Upper Class customers with tickets on the Gatwick Express rail link to Victoria station – then whisk them by Land Rover from there to hotels or business destinations.

The service will be available to passengers from Orlando, Miami and Boston who arrive between about 7am and 8.15am, when travel into London is at its most unpleasant.

N. Asian gateway

South Korea is hoping to become northern Asia's main international aviation gateway. Inchon International, an offshore airport being built to serve Seoul, will eventually be capable of handling 100m passengers a year.

The first phase of the project, which may cost $20bn to complete, is scheduled to be open by 2001. Built on reclaimed land between two islands in Kyung-Ki Bay, it will be linked to the mainland by a 4.4km bridge and will cover a site about four times the size of Chek Lap Kok, which is being developed as a new offshore airport for Hong Kong.

Stubbed out

Remember: smoking will be forbidden on British Airways' New York Concorde services from January 1. The move is part of a new trial extending the smoking ban to over 350 more BA flights a day. Services concerned are to Africa, Europe, the Middle and Far East, and North America. BA, which already bars smoking on 750 daily services, will monitor customers' reactions.

The airline says the response to similar trials on other routes has been "overwhelmingly favourable". Smoking will still be allowed on 80 flights a day where there remains sizeable (if diminishing) demand for it. These include flights to some eastern European destinations, including Russia, Ukraine and Bulgaria.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong	22	22	21	21	20
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Frankfurt	5	4	6	7	4
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
L. Angeles	24	24	22	22	19
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Paris	5	5	10	9	9

Gastronomic trips to Bordeaux are inspiring car finance sales managers, says **Amon Cohen**

Motivated by food

Fancy an all-expenses-paid gastronomic weekend in Bordeaux with your partner? Would you work harder at your job to earn it?

Rover Finance Retail assumed the answer to both questions was yes when it staged an incentive trip a few weeks ago for 90 car finance sales managers.

The potential to inspire better sales performances had to be large to justify the cost. The entire package, including organising the incentive competition, fees to an incentive consultancy, paying for the trip itself and settling with the Inland Revenue for benefits in kind, left little change from £160,000.

The sales managers who went on the trip all work for Rover dealerships and are responsible for selling the personal financing deals that accompany most private purchases of new cars.

Although Rover Finance is half-owned by the Rover Group (the other 50 per cent belongs to Lombard), Rover dealers are not obliged to sell its products and carry several rival financing packages in their portfolios.

Presumably, therefore, Rover Finance expected the incentive to generate extra sales worth well in excess of £160,000. Despite the expense, David Watts, Rover Finance marketing manager, is extremely pleased with the results. Sales increased during the four-month summer incentive period by 13.7 per cent in 1995 and 23.7 per cent in 1996.

"The incentive had a significant role to play in getting dealers to focus on Rover Finance during those summer months. We would not have done so well," says Watts.

There are also more intangible benefits, such as giving clients a chance to build a rapport with dealers or employees for future campaigns. "You are able to communicate closely and develop a relationship. That has a value which cannot be put in pounds," he says.

The success of the Bordeaux trip demonstrates the perennial power of travel as a motivator, hitting the spots that financial inducements such as enhanced commission cannot always reach.

"From a sales manager's point of view, yes, it would be better to have a chance to deliver more commission and more profit for the company," says Roy Hartveld, sales manager for Welptons Rover & MG of East Yorkshire, one of the winners of the Bordeaux trip.

"But from a personal angle, I would never have gone to Bordeaux on my own for two days and done what I did. Trips like this do motivate people. It helped me to focus my mind on the products and to urge on my sales force."

For Hartveld, the motivation to improve performance came when he received his first league table, showing how close he was to winning a place on the weekend. Rover Finance awarded the trip to managers whose sales teams achieved the highest penetration – the percentage of car sales to which the dealership added a finance package with Rover Finance.

The 400-plus Rover dealerships that participated were organised into regional league tables so that sales managers could compare their performance with local rivals. The top five in each league qualified for the incentive. "When I got the first league table, I was number six. That was what got me clicked on," says Hartveld.

His reaction was a textbook example of why a well-structured incentive is superior to cash inducements, according to John Fisher, managing director of Page & Moy Marketing, which organised the trip.

"What spurs them on most is not winning the prize but to be seen as part of an elite, successful group," says Fisher. "No one in our culture discusses how much they earned last month but they will talk about winning a trip to Henley.

"Money has diminishing returns. The effectiveness of cash as a motivator is relatively weak once a person has reached a financial comfort level, which most of these people have."

Fisher, author of *A manager's guide to staff incentives and performance improvement techniques* (Kogan Page), says when someone participates in an incentive scheme for the first time, it improves sales by between 10 and 50 per cent. For those accustomed to non-cash incentives, performance improves between 5 and 15 per cent.

There are disadvantages to incentives, such as the potential for causing resentment among staff who are not eligible to win them. Rover Finance operates a separate scheme for the salesforces run by the managers who participated in the Bordeaux promotion.

Page & Moy Marketing charges similar rates to a public relations or advertising agency for its services. In terms of overall cost for a project, Fisher would not look at a budget of less than £50,000.

A weekend in London, including accommodation at a four-star hotel and theatre tickets, would cost about £350 a head, whereas a weekend in Paris, with flights, hotel and cabaret, would run up a bill of between £450 and £500 a person. Page & Moy Marketing recently ran a round-the-world incentive for an international car company, taking winners to three destinations in 11 days at a cost of £7,000 a head.

The Bordeaux package for Rover Finance represented the third annual trip in a series called "A taste of success".

According to Watts of Rover Finance, destinations for the series are chosen for their fame in a product or service. They should also be locations that most winners have not visited. There must be a chance to participate in an event the winners would find difficult to organise as individuals. Furthermore, the trips take place at weekends to avoid clashing with work and to make it easier to bring partners. Travel is by private charter, allowing regional airport departures and flexibility of schedule.

The Bordeaux trip left a lasting impression on Hartveld. "I couldn't fault it. It has already motivated me for next year," he says.

Smart way into Australia

Australia is testing smart cards for incoming passengers to help cut queues at airports, Michael Skapinker writes. Some travellers to Australia are processed by immigration at their points of departure and given a swipe card which gains them entry when used at Brisbane's new airport.

More curious is the machine that takes your photograph and compares it to the one in your passport – reached before you come to the immigration desk. You insert your passport and the machine takes a picture of you. If you look like your passport photograph, the immigration officer can get on with the other formalities. If, on the other hand, you have grown a beard, lost your hair or gained much weight since your photograph was taken, the officers have to scrutinise you themselves, keeping everyone else waiting a little longer.

Does the machine function properly? Matthew Stone of the Australian Customs Service pondered, laughed, and passed on the question.

● American Express predicts that US business travel costs will jump by between 6 and 7 per cent next year as airlines, hotels and car rental companies take advantage of rising demand to bump up prices, Richard Tomkins writes.

The biggest price increases are likely to be inflicted by the airlines, with business air fares expected to rise by between 8 and 9 per cent during 1997. Almost as bad is the 7 per cent increase predicted for hotel bills and the 5 per cent increase expected for car rentals.

American Express's travel division carries out this survey every year. For 1996, it predicted an overall increase in US business travel costs of between 3 and 4 per cent but it was caught out by an unexpectedly big increase in air fares: the figure is expected to be 5.7 per cent.

Next year, American Express expects another big increase in air fares because US airlines are being cautious about increasing capacity. With passenger numbers expected to rise by 4 per cent and capacity expected to increase by only 3 per cent, domestic flights are expected to be even more crowded than this year.

A similar capacity crunch looms in the hotel industry, with corporate travellers already finding hotels fully booked in the main business destinations.

هكذا من الأصل

ARTS

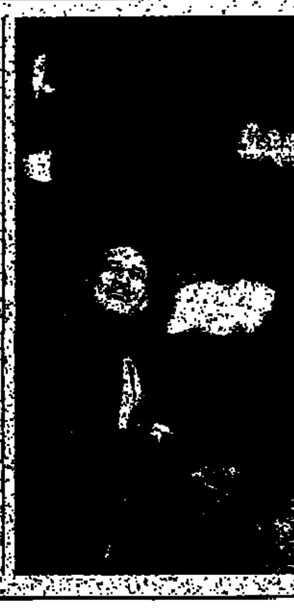
OPENINGS

AMSTERDAM
The bicentenary of the death of Catherine the Great is marked in an exhibition opening tomorrow at De Nieuwe Kerk. It includes a paintings collection bought by the Russian empress in 1772, highlights of which are Rembrandt's *Holy Family* of 1645 and Titian's *Portrait of a young woman* of 1536. The 300 works on loan from the St Petersburg Hermitage also include works by Rubens, Hals and Poussin, as well as Roman busts, Italian drawings and portrait miniatures.

ROTTERDAM
Huge paintings of naval battles, tranquil sunsets, atmospheric harbour scenes – all can be seen in a retrospective of 17th century Dutch marine painting (above), which opens at the Boijmans Van Beuningen Museum on Sunday.

GHENT
A new opera based on Laclos's 18th century novel *Les Liaisons dangereuses* will be premiered tomorrow by the Flanders Opera. The composer is Piet Swerts, and the role of Valmont is sung by French baritone François Le Roux.

LONDON
The Kirov Ballet from St. Petersburg opens a season at the London Coliseum on Tuesday, with a run of *The Nutcracker* in the sensible-enough 1934 version by Vasily Vainonen. The season will bring a galaxy of new young Kirov dancers, plus the divine Altynai Asylmuratova and Zhanna Ayupova at certain performances. Check for casting: the first night brings the delightful Diana Vishneva.
As part of Richard Eyre's (left) farewell season as artistic director of the National Theatre, he reprises his 1981 hit production of *Guys and Dolls* (right), opening on Tuesday at the Olivier Theatre. The cast this time is led by Imelda Staunton, Henry Goodman, Clarke Peters and Joanna Riding.



VIENNA
Two events linked to Dresden occupy centre-stage this week. Richard Strauss's *Die schweigsame Frau*, premiered in the Saxon city in 1935 but not seen in Vienna till 1968, receives a new production at the State Opera on Saturday, with Kurt Rydl as Sir Morosus and Natalie Dessay as the 'silent woman' of the title. The second event is an exhibition at the Oberes Belvedere devoted to Kokoschka in Dresden, covering the paintings he created there between 1916 and 1923. It runs from [illegible] to early March.

STRATFORD-UPON-AVON
The Royal Shakespeare Company launches two new productions this week. At the Swan Theatre on Wednesday, Joanne Pearce (left) returns to the stage (after pregnancy) in her husband Adrian Noble's staging of Ibsen's *Little Eyolf*. On Thursday, Ian Judge directs *The Merry Wives of Windsor* at the Royal Shakespeare Theatre.

Museum which fell for the Boss

There are controversial moves afoot at the Guggenheim in New York, reports Antony Thorncroft

In 1956, when New York's Guggenheim Museum first awarded an international art prize, the cheque for $10,000 was handed over to the British artist Ben Nicholson by President Eisenhower himself. It was a Nicholson painting, "August 1956", which secured the glory. On Tuesday, when the Guggenheim renewed the award after a long gap, it was Dr Peter Littmann, the chairman of Hugo Boss, the male-clothing manufacturer, who made the 29-year-old artist, Matthew Barney, $50,000 richer.

It will surprise no one to discover that Barney works in every medium but paint. He uses performance art, film, video, sculpture, photographs, anything at hand, to create striking, if facilely shocking, images that are often inspired by gender bending. He is perhaps best known in the UK for clambering up a wall and across the ceiling of an art gallery clad only in a climbing harness and with a pick-axe up his backside.

There is no reason to believe that any ambitious politician, even a president, would refuse to shake hands with such a creative force. But these days politicians do not pay for the arts – at least not in the US, and decreasingly in the rest of the world. It is business sponsors who keep the galleries open and Hugo Boss is a good friend to the Guggenheim.

Littmann has promised the museum $5m over five years. Some of the money is going towards the Hugo Boss prize, a biennial award, for the most interesting artist in the world – in the view of the judges. The aim is to make the Hugo Boss and the Guggenheim as familiar as the Turner prize and the Tate in the UK.

It is an ambition with which Thomas Krens, the director of the Solomon R. Guggenheim Museum, is in total agreement. Krens' willingness, indeed his enthusiasm, for embracing change has horrified his rivals in the intensely competitive New York art scene. Since taking over in 1988 he has single-mindedly marketed the Guggenheim as a brand, both nationally and internationally.

He started off with a good product, a prime collection of 20th century art inhabiting a seminal, but small, Frank Lloyd Wright building in Upper Manhattan. He quickly collected powerful friends, inviting in as president Ronald Perelman (Mr Revlon), reputedly the richest man in New York. He then pushed through a controversial extension of the building in Fifth Avenue.

When local residents stopped a bigger development Krens acquired two floors of a brownstone building in downtown Manhattan to create a satellite museum in the midst of the fashionable gallery area of SoHo. He has recently absorbed the third floor and aims to colonise the whole building. To help fund his expansion plans he issued bonds; to buy new art, especially an important collection of minimalist art, he controversially sold major works from the collection, including a Chagall and a Kandinsky.

But it is his ambitions to make Guggenheim a global force that has amazed the art world. There was already the Peggy Guggenheim Collection in Venice. But Krens lent his name and expertise to a new museum in Bilbao, funded by the Basque government to the tune of $140m. It will include many works from New York (the Guggenheim can only show 5 per cent of its holdings), and new acquisitions by working artists, acquired by Krens – for a fee. The extraordinary building, an abstract construction designed by Frank Gehry, will open next year, probably in October.

In Seoul Krens is co-operating with Samsung to open a museum of contemporary art of which the Guggenheim will stock at least three galleries. And there are ambitious plans for China. The Chinese government was upset when the Metropolitan Museum in New York held a major exhibition of masterpieces from Taiwan this year. To counter-balance this cultural propaganda China has agreed to send over its treasures to the Guggenheims, both uptown and downtown, in 1998. This year Krens showed the African art exhibition which had been at the Royal Academy in London: the Chinese works will stretch back to archaic bronzes. The Guggenheim, once the rival of New York's Museum of Modern Art, is now competing with the Met...

These links with China interest sponsors. Krens aims for a select group of seven companies, each contributing at least $1m a year, who are best friends to the Guggenheim. Some, like Deutsche Telekom, use the link mainly for corporate hospitality and prestige: the company used the museum to entertain American contacts when the company was privatised last month.

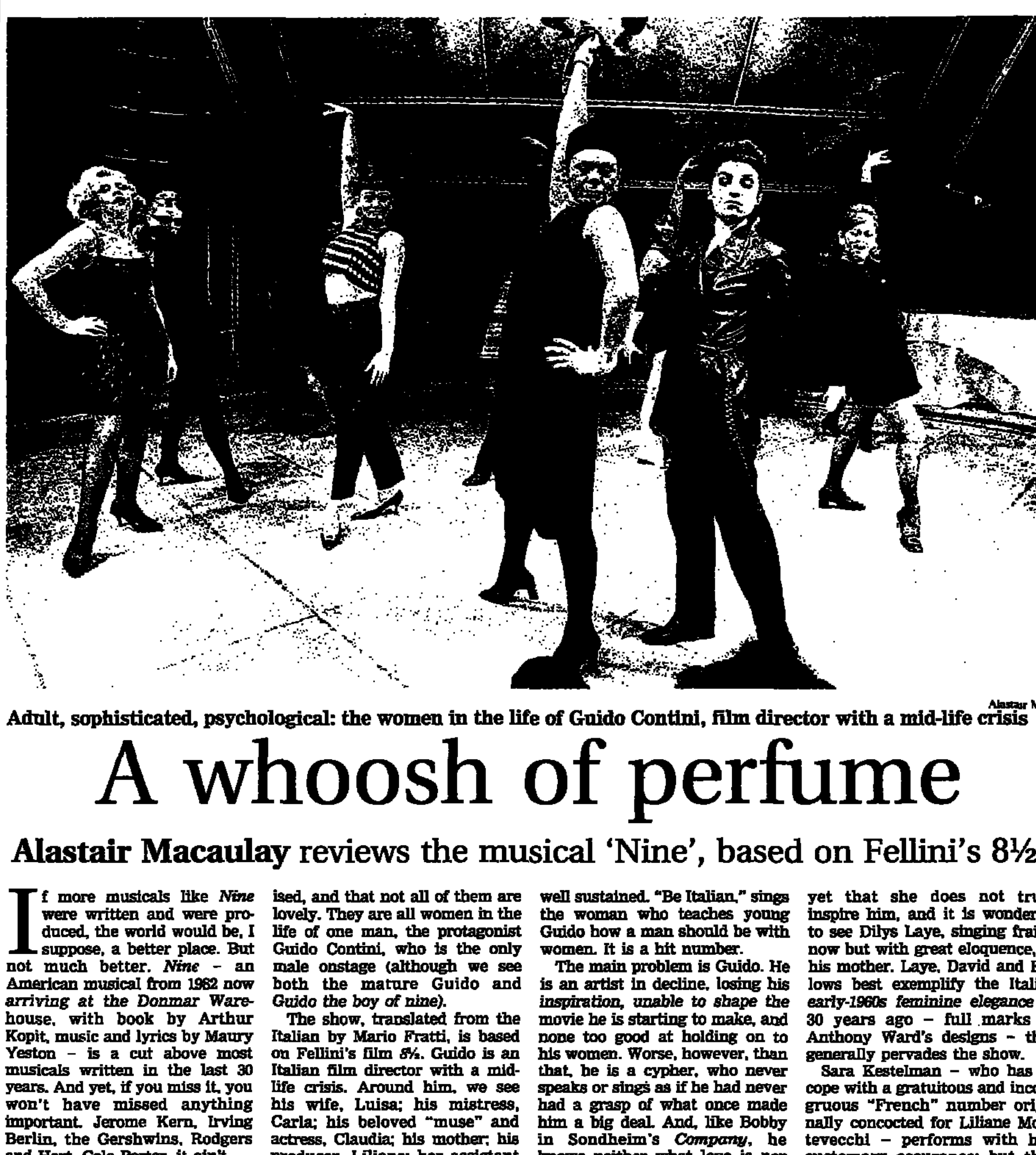
Others, like Hugo Boss, seek a closer relationship, a partnership. Among the trade-offs, Hugo Boss offers its employees an Artcard which gives free admission to the Guggenheim and other museums like the Pompidou (with the Tate set to co-operate next year). Artists come to lecture at the Hugo Boss factory in Germany, and there is an art library.

Littmann believes that the creative input of the Guggenheim stimulates his workforce. He is a friend of artists, employing David Hockney and Roy Lichtenstein to design ranges in his previous job at Vorwerk, a carpet company. He draws the line at getting artists to design suits (ties, yes), but he is happy to dress Krens and Ellsworth Kelly, the conceptualist artist whose work currently fills the Guggenheim, sponsored by Hugo Boss.

Littmann seeks a long-term partnership, talking of 20 years. His hopes of making the Hugo Boss prize a controversial talking point may be unrealised. In New York the small minority that embraces art loves the *avant garde*. The award to Barney caused no outcry. But if there is no artificial outrage, the show, currently on display in the downtown Guggenheim, knocks the recent Turner exhibition at the Tate into a cocked hat.

None of the six shortlisted artists – Janine Antoni, Laurie Anderson, Cai Guo Qiang, Stan Douglas, Yasumasa Morimura competed with Barney – works in paint: they use film and video, the art forms of the 20th century, or conceptualist fantasies, dwelling on the era's preoccupation with sex, especially bisexuality. The work of Antoni is typical. She sleeps, and her dreams are captured on an electroencephalograph. She then weaves the resultant squiggles into a bolt of material, using the coloured shreds of a nightgown she has purchased. While weaving by day she sleeps in the museum by night. The roll of cloth steadily grows.

Moving from room to room is an enchanting experience, like taking a trip on a roller coaster through the hyper-active imaginations of latter day Romantics. It may amount to little, but it is a thrilling ride.



Alastair Muir

Adult, sophisticated, psychological: the women in the life of Guido Contini, film director with a mid-life crisis

A whoosh of perfume

Alastair Macaulay reviews the musical 'Nine', based on Fellini's 8½

If more musicals like *Nine* were written and were produced, the world would be, I suppose, a better place. But not much better. *Nine* – an American musical from 1982 now arriving at the Donmar Warehouse, with book by Arthur Kopit, music and lyrics by Maury Yeston – is a cut above most musicals written in the last 30 years. And yet, if you miss it, you won't have missed anything important. Jerome Kern, Irving Berlin, the Gershwins, Rodgers and Hart, Cole Porter, it ain't.

It has originality of theme and variety of mood; and it is nearly unique among the modern musical in the rare excellence of its writing for the voice. It is never banal pop-idealism like Bloubil-Schönberg, or morbid-emotional manipulation like Lloyd Webber, or passionless cynical/sentimental mannerism like Sondheim. Of the three, it most resembles Sondheim. It is adult, sophisticated, psychological.

And it floods the stage with women. No, it is nothing like an old Ziegfeld show (girls, girls, girls) and yet there are times when, by filling the eye and ear with women (women, women), it deliberately refers to the Ziegfeld formula. The special feat of *Nine* is that the women are individualised, and that not all of them are lovely. They are all women in the life of one man, the protagonist Guido Contini, who is the only male onstage (although we see both the mature Guido and Guido the boy of nine).

The show, translated from the Italian by Mario Fratti, is based on Fellini's film *8½*. Guido is an Italian film director with a mid-life crisis. Around him, we see his wife, Luisa; his mistress, Carla; his beloved "muse" and actress, Claudia; his mother; his producer, Liliane; her assistant Stephanie Necrophorus; the nameless woman who once, when he was nine, taught him how to please women; and Sarraghina, Lina, Maria, Annabella, Diana, Renata, Olga. Together, they sing in lush polyphony like Flower Maidens: the harem of his fantasies, the web of his subconscious.

It is also a very Italian show, illustrating an essentially Italian (early-1960s Italian) conception of gender and society. Everyone speaks and sings with Italian accents, and the words are peppered with Italian. Occasionally, as when one woman says "You will soon been too *stanco*", this turns into the camp parlance of E.F. Benson's Lucia. But most of the style is well sustained. "Be Italian," sings the woman who teaches young Guido how a man should be with women. It is a hit number.

The main problem is Guido. He is an artist in decline, losing his inspiration, unable to shape the movie he is starting to make, and none too good at holding on to his women. Worse, however, than that, he is a cypher, who never speaks or sings as if he had never had a grasp of what once made him a big deal. And, like Bobby in Sondheim's *Company*, he knows neither what love is nor who he is. In this role, Larry Lamb looks handsome, Italian, beleaguered. And he sings with an Italian placement of the voice (in the mask of the face). But he generates neither allure nor wit: without which his lyrics sound pretentious and hollow. The big vocal lines are too much for him; and he could give pancakes lessons in flatness.

There are excellent numbers for several of the women. Susannah Fellows acts with touching distinction as his wife Luisa, and sings with great command; Clare Burt, in a rather-too-obviously steamy role as his mistress Carla, has panache. I was spellbound by the beautiful poignancy of Eleanor David, the muse who knows she loves the artist and yet that she does not truly inspire him, and it is wonderful to see Dilys Laye, singing frailly now but with great eloquence, as his mother. Laye, David and Fellows best exemplify the Italian early-1960s feminine elegance of 30 years ago – full marks to Anthony Ward's designs – that generally pervades the show.

Sara Kestelman – who has to cope with a gratuitous and incongruous "French" number originally concocted for Liliane Montevecchi – performs with her customary assurance; but this compelling actress is now starting to turn into a camp turn. Kiran Hocking, a marvellous stout and plain contralto, does marvels with the woman who trains young Guido in the arts of Eros. The complex musical ensembles are very well handled, and it is wonderful to hear vocal lines that lovingly challenge the singers. David Leveaux, directing a musical for the first time, co-ordinates everything with great fluency; and he fills the Donmar Warehouse exotically with the many facets of Italian femininity. The sheer Italianate sexism of the show, with high feminine glamour diversely shown, comes to the English stage like one whoosh of continental perfume after another.

INTERNATIONAL
ARTS
GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-6718345
● András Schiff: the pianist performs works by Schubert; 8.15pm; Dec 17
● Messiah: by Handel. Conducted by Trevor Pinnock, performed by The English Consort. Soloists include Nancy Argenta, Catherine Wyn-Rogers, Anthony Rolfe Johnson and Gerald Finley; 8.15pm; Dec 21
● Rotterdam Philharmonic Orchestra: with conductor Valery Gergiev and violinist Maxim Vengerov perform works by Wagner, Dvorák and Schumann; 8.15pm; Dec 17

EXHIBITION
Beurs van Berlage – tentoonstellingen
Tel: 31-20-530 4141
● Bakeliet 2000 X: this exhibition of 2,000 bakelite objects from the collection of Frits Becht focuses on the use and design of this synthetic that was developed in Belgium in the 1930s; from Dec 19 to Feb 9

■ BERLIN

CONCERT
Philharmonie & Kammermusiksaal
Tel: 49-30-2614383
● Berliner Philharmonisches Orchester: with conductor Nikolaus Harnoncourt perform works by Brahms; 8pm; Dec 19, 20, 21
● Daniel Barenboim: the pianist performs works by Schubert and Brahms; 8pm; Dec 17

OPERA
Komische Oper
Tel: 49-30-202600
● Lucia di Lammermoor: by Donizetti. Conducted by Yakov Kreizberg and performed by the Komische Oper. Soloists include Noëmi Nadelmann, Christiane Bach-Röhr and Stephan Spiewok; 7pm; Dec 19

■ BRUSSELS

CONCERT
Palais des Beaux-Arts
Tel: 32-2-5078466
● Philharmonia Orchestra: with conductor Esa-Pekka Salonen, cellist David Geringas and soprano Joan Rodgers perform works by Ligeti and Mahler. Closing concert of the Festival van Vlaanderen; 8pm; Dec 17

■ COPENHAGEN

OPERA
Det Kongelige Teater
Tel: 45-33 69 69 69
● Die Meistersinger von Nürnberg: by Wagner. Conducted by Heinz Fricke, performed by the Royal Danish Opera. Soloists include Bent Norup, Stig F. Andersen and Tina Kiberg; 5pm; Dec 17

■ FRANKFURT

MUSICAL
Alte Oper Tel: 49-69-1340400
● The Beauty and the Beast: performance of this Andrew Lloyd Webber musical, directed by David Bell; 8pm; Dec 18, 19, 20, 21 (also 3pm), 22 (also 3pm), 23

■ GENEVA

EXHIBITION
Petit Palais Musée d'Art Moderne Tel: 41-22-3461433
● Le Pointillisme: exhibition of some 70 works from the Neo-impressionist collection of the Petit Palais. The display includes works by artists such as Albert Dubois-Pillet, Maximilien Luce, Charles Angrand, Van Rysselberghe, Van de Velde, A.J. Heymans, Henri Martin, Pietro Mengarini, Signac, Gausson, Laugé and H. Petitjean; to Dec 31

■ GHENT

EXHIBITION
Museum voor Sierkunst en Vormgeving Tel: 32-9-2256676
● Murano-glas uit de 20ste eeuw – Van kunsthandwerk tot design: exhibition of 20th century glass art from the island of Murano, Italy. The display features some 250 objects; to Jan 12

■ LONDON

CONCERT
Queen Elizabeth Hall
Tel: 44-171-9210600
● Academy of St. Martin-in-the-Fields: with conductor Kenneth Sillito and clarinettist Andrew Marriner perform works by C.P.E. Bach, Mozart, Suk and Beethoven; 7.45pm; Dec 17
Royal Albert Hall
Tel: 44-171-5898212
● Messiah: by Handel. Conducted by Brian Wright, performed by the Philharmonia Orchestra and the Goldsmith's Choral Union. Soloists include soprano Mary Hegarty, mezzo-soprano Jean Rigby, tenor Neil Archer and baritone Stephen Vacoe; 7.30pm; Dec 21, 22 (8pm)

DANCE
Royal Opera House – Covent Garden Tel: 44-171-2129234
● Cinderella: a choreography by Frederick Ashton to music by Prokofiev, performed by the National Ballet. Soloists include Darcey Bussell and Jonathan Cope; 7.30pm; Dec 17

POP-MUSIC
Wembley Stadium, Arena and Congress Centre Tel: 44-181-9001234
● Tina Turner: performance by the American singer; 7.30pm; Dec 18, 19, 20

■ LOS ANGELES

EXHIBITION
The J. Paul Getty Museum
Tel: 1-310-459-7611
● Figure Drawings: an exhibition of 26 works from the museum's collection, dating from the 16th through 19th centuries. The drawings range from nude figure studies to images of people at work and leisure; from Dec 17 to Apr 6

■ NEW YORK

OPERA
Metropolitan Opera House
Tel: 1-212-362-6000
● Rigoletto: by Verdi. Conducted by Carlo Rizzi, performed by the Metropolitan Opera. Soloists include Dunleavy, White, Vargas, Nucci and Miles; 7.30pm; Dec 17

■ PARIS

CONCERT
Notre-Dame de Paris
Tel: 33-1 42 34 56 10
● Magnificat: by J.S. Bach. Conducted by Nicole Corti, performed by the Maîtrise de Notre-Dame de Paris, Carmina Sacra; 8.30pm; Dec 17, 20

OPERA
L'Opéra de Paris Bastille
Tel: 33-1 44 73 13 99
● Porgy and Bess: by Gershwin. Conducted by John DeMain, performed by the Houston Grand Opera and the Orchestre Lyrique de Paris; 7.30pm; Dec 17, 19, 20, 21 (2pm & 8pm), 22 (2pm), 23, 24

■ VIENNA

OPERA
Wiener Volksoper
Tel: 43-1-514442308
● Carmen: by Bizet. Conducted by Bertrand de Billy, performed by the Wiener Volksoper. Soloists include Graciela Araya, Petra Maria Schnitzer and Ruben Broitman; 7pm; Dec 18, 21 (4.30pm)

■ WASHINGTON

EXHIBITION
Corcoran Gallery of Art
Tel: 1-202-638-3211
● Finland and Fabulous Fabergé: exhibition focusing on the contribution of Finnish craftsmen to the reputation of Carl Fabergé. The reputation of Fabergé is owed to the extraordinary quality of design and craft that his workshops produced from 1880 to 1917. It was during this time period that Finnish craftsmen were strongly involved in the production of exquisite gold jewellery and objets d'art. The display features about 75 works by Finnish artists and craftsmen, among them Tillander, Wigstrom, Pihl and Holstrom, and includes two imperial eggs and the imperial pansy from the Kremlin Armory Museum in Moscow; to Jan 27

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands.

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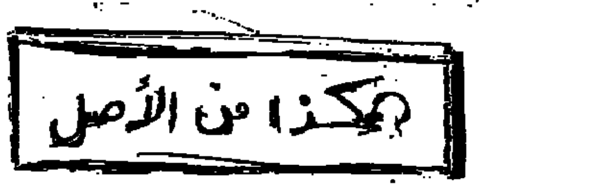
CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight



هكذا من الأصل

Management · **Tony Jackson**

A grip on the intangible

The uses to which companies put brand valuation are broadening all the time

The handling of intangible assets – brand names, trade-marks and so forth – is becoming an increasingly vexed issue for managers. Valuing these assets is an inexact business, and none of the methods used is entirely respectable. But brands can obviously be worth a great deal. In an era of value-based management, how is that to be captured?

The uses to which companies put brand valuation are broadening all the time. Weston Ansen, head of the California-based valuation specialist Trademark & Licensing International, ticks off a few.

First, intangibles are used to raise loans. One of his clients, he says, is Carnation, a subsidiary of the Swiss food group Nestlé. "They recently got a valuation from us of certain brand assets. Then they went to a bank and borrowed against the security of those intangibles."

Then there is merger and acquisition work. "We're working for a lodging chain in the US which has just gone private. A finance house has purchased its trademarks for $100m (£60.6m) and leased them back. The lodging chain makes lease payments over 15 years, then buys the trademarks back for $1."

Or the valuation can be for internal use. "[The US chemicals group] Du Pont asked us to value some of their brands, so they could make some decisions on how much advertising support to give them, or whether to put effort into licensing them out."

Procter & Gamble, which Ansen says is his biggest client, uses valuations for inter-company transfers. "When you've got 50 subsidiaries using a brand," Ansen says, "the question is what it's fair to charge them, as a royalty or annual fee."

The list can be extended: using brand values to measure the performance of managers, for instance, or to justify international transfer payments to local tax authorities. But it is worth injecting a note of caution here.

Ansen's company is one of the leaders in the field of valuing intangibles – another being Interbrand, part of the US marketing group Omnicom. It pays those companies to trumpet their wares. Others are more sceptical.

One such is Sam Hill, chief marketing officer of the management consultants Booz Allen. How you arrive at brand valuations, he says, is inseparable from how you employ them.

"People would love to use them", he says. "But if there were a better way to do it, they would use them a lot more."

He points to the annual league tables of brand values produced by the US publication Financial World. In 1994 the IBM brand name was recorded as having negative value. In 1996 it was valued at $18.5bn. As Hill puts it, "any methodology which tells me my plants were worth zero four years ago and $18bn now would worry me."

As for the internal use of brand values, he says, "the whole trend is to try to measure managers accurately in terms of the capital they have under their control. But I can't give you a single example of people systematically employing it."

In any case, he says, "all these guys triangulate: they use three or four methodologies to arrive at a value. My short message is that a lot of folks would love to measure all the capital employed in their business, but nobody knows how to do that in a replaceable or transferable way."

In fairness, it is worth pointing out that the values produced by Ansen, for instance, are not snatched out of the air.

He illustrates this by a simple example: how he would go about measuring the brand value of the Financial Times.

First is what he terms the core value: the masthead. He would search his database for royalty rates charged for comparable publications around the world: for the Wall Street Journal in Asia, for instance, or the titles of the US media group Gannett. Having established a royalty, he would capitalise it on a discounted basis over some 20 years.

Then come what Ansen terms the incremental elements of value. These are the distribution efficiencies for a paper of the FT's size, the marketing efficiencies across other publications in the FT's stable, and advertising and promotion savings.

Finally comes the value of the FT's electronic website, FT.com. This, Ansen says, is not trivial. Some US organisations failed to register their own names as websites in time, and had to buy them back from earlier claimants.

"If you sold the FT," he says, "you'd be selling a lot more than the masthead. And the value of the brand is different to each buyer. To get a transaction price, you'd need to know who the other person is."

This may sound like an elaborate restatement of the obvious. This does not mean the problem will go away.

Brand valuation, Sam Hill points out, is only one of a set of linked issues. "Increasingly, a huge amount of capital in the business is not being captured or measured: intellectual capital, relationship capital or brand capital. That's a great story."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e-mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages.

Report not an official evaluation

From Mr Patrick Moulette.

Sir, Your article "Offshore centres' regulation under fire" (December 4) quoted a Guernsey banker as saying that the island's regulation "had been favourably assessed by the Financial Action Task Force set up by the G7".

I would like to point out that although the Financial Action Task Force on Money Laundering (FATF) recently adopted a policy for assessing the performance of non-member governments, it has to date only carried out evaluations of its members. In fact, results of evaluations of the British Crown Dependencies of Guernsey, Jersey and the Isle of Man, which were carried out by a UK-led examination team, were presented to the June 1995 FATF plenary meeting. However, this meeting confirmed that the reports resulting from these evaluations were not official FATF mutual evaluation reports.

Patrick Moulette,
secretary,
Financial Action Task Force on Money Laundering,
37 bis, Boulevard Suchet,
75116 Paris, France

Voluntary recycling ineffective

From Mr Maurizio Cancelmo.

Sir, Our organisation was disappointed by your editorial follow-up on December 5 ("Scrap directive") to your article on the recycling of cars published on December 4 ("Carmakers face rule on recycling").

Your editorial places the Commission initiative in a very bad light, using the classical arguments put forward by car producers. It also far from represents an objective assessment of the facts.

First, it overlooks the fact that the Commission initiative comes directly from a 1994 proposal by car producers which, it now seems, have changed their mind.

Second, the Commission's idea is fully in line with the trend for "producer responsibility" recognised in the new waste management strategy adopted in July 1996.

Third, the editorial takes a generally negative position on environmental regulation, which is far from representing an unbiased position and seems to come directly from the car industry.

Fourth, the editorial is highly misleading on the real facts: car recycling has reached about 75 per cent but not as a consequence of the few voluntary agreements put forward by car producers.

Seventy-five per cent of cars is metal and this proportion has been recycled for many years because of its intrinsic economic value. The other 25 per cent (bound to increase in the coming years, namely plastics, rubber and hazardous materials, is recycled at 0 per cent, that is, it is entirely land-filled).

The voluntary agreements quoted in the editorial have not changed this situation.

The only voluntary agreement which can be said to have effected new environmental benefits is the Dutch agreement.

This was coupled with legislation requiring a levy to be paid on the purchase of the new car, to be used to subsidise recycling activities where this is needed. This system has created thousands of new jobs.

Finally, the conclusion that "the market can assign efficient prices to scrap which will determine whether it is more wasteful to throw it away or to re-use it" ignores the fact that, if the market has many voices, the environment has none. We would have expected a higher degree of objectiveness in the Financial Times editorial.

Maurizio Cancelmo,
president,
Observatoire Permanent de L'Environnement,
25 Rue Charles Meert,
B-1090 Brussels,
Belgium

Lesson for the EU

From Sir Ian Morrow.

Sir, The following is taken from *An Outline of American Government*, published by the US Information Agency.

"Seven of the 13 states printed large quantities of paper money – high in face value but low in real purchasing power – in order to pay veteran soldiers and a variety of creditors, and to settle debts between small farmers and large plantation owners.

"Absence of a uniform stable currency also disrupted trade among the states and with other countries. Not only did the value of paper currency vary from state to state, but some states (like New York and Virginia) levied duties on products entering their ports from other states, thereby provoking retaliatory actions."

The history of the creation of the modern United States of America has many lessons for the European Union. The first constitution did not work and it had to be replaced with the present constitution after some six years.

Ian Morrow,
2 Albert Terrace Mews,
London NW1 7TA, UK

Food changed genetically since the year dot

From Mr John Churchyard.

Sir, I must take Joe Rogaly to task for his article "Beans and genes" (December 7/8). He really has been taken in by the rubbish published by many people today without checking the facts.

Today we feed almost exclusively on "laboratory modified comestibles", although Mr Rogaly obviously does not appreciate that. Genetic engineering is the modern "in" word for breeding, ie altering the genetic make-up of a plant or animal. Farmers, and more recently scientists, have been modifying the genetic make-up of the plants we eat since the year dot. Initially, they did not know what they were doing, they just bred from the best plant or animal, perhaps crossing widely differing breeds or species (for example, for animals take the mule, or for plants Fatshedera, that grows in many people's gardens). Now, with greater knowledge, greater progress is being made.

For many years plant and animal breeders have combed the world for plants or animals with the particular properties that they desire so that they can breed them into their domesticated stock. This is no different from what Monsanto has paid people to do – ie find something with the desired characteristic, in this case resistance to Roundup, that they can then add to the soya plant so that they can grow the crop more cheaply, using less chemical per acre in total.

All right, so Monsanto hopes to make more profit that way – so what's wrong with commercial enterprise? The chance of any deleterious effect on people is no greater than with any other breeding programme to introduce a new characteristic to a plant. And there have been plenty of those in the recent past, without any of the current palaver.

John Churchyard,
9 Green Lane North,
Thorpe End,
Norwich NR13 5BB

Art is good for museum people too

From Dr Catherine Ross.

Sir, William Packer seems to cast doubt on the appropriateness of museums to exhibit works of art ("Celebration of the stark cityscape," December 3). Yes, our "more casual public" may well read David Hepher's paintings of tower blocks differently to an art gallery public. But is this really "a pity"?

The Museum of London provides a public space where people can reflect on this extraordinary city, its present as well as its past. Contemporary art, with its ability to reach feelings that facts alone do not, plays an essential part in this.

Paintings are far too important to be left just to art galleries.

Catherine Ross,
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Creeping price convergence – post Emu

From Mrs Margaret Spong.

Sir, While mulling over the impact of Emu on the man in the street, I was reminded of a friend's elderly mother, who has kept records of her domestic expenditure for more than 40 years.

Comment on Emu has been at a level beyond the grasp of most – notwithstanding the fact that pensions could be paid in euros in some five years' time ("Emu may cost pension funds £3m", November 15).

Price, however, is something we all understand and one consequence of Emu for goods could be price convergence – preferably on the lowest. An annual survey of prices across Europe for a range of commonly available goods would indicate whether this was happening.

Unfortunately, the only name I could think of for such a survey was EUROCREEP (euro comparison of regional expenditure and equalisation of prices).

Unattractive, but possibly apt.

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Norma Cohen puts the case for identifying 'serial failers'

Dangerous directors

Graham Kall, a shopfitter in Cuffley, north of London, had been a contractor to the Salisbury luggage chain for years before it was acquired by Facia, the high street retail chain. When Facia collapsed in June owing £80m, Mr Kall was owed £80,000 – a debt which forced him to place his 25-year old business into voluntary liquidation.

Mr Kall has since learnt that this is not the first involvement of Mr Stephen Hinchliffe, the flamboyant chairman of Facia, with corporate disaster. Since 1990 three of his companies, unrelated to Facia, have been the subject of winding up orders or creditors' liquidation.

"We didn't know about that," Mr Kall says. "It was a case of dealing with him or not dealing with him."

In recent years there has been a rise of what insolvency practitioners call "serial failers" – individuals who run a series of companies that go bust.

Data from CCN, the Nottingham-based credit investigation agency, show there are more than 300,000 serial failers – directors with more than one failed company behind them. This is just over 10 per cent of the 2.6m company directors on its register.

Of these, 4,000 have 10 or more failed companies behind them – up from about 1,000 found in a survey two years earlier.

"The real problem is the serial failer who moves from one failed company to another, often deliberately closing down companies to avoid repaying their debts," CCN notes.

In their wake, serial failers leave behind debts to government bodies, such as Customs and Excise and the Inland Revenue, and to trade creditors. Many of the latter are small businesses such as Mr Kall's, which are unable to survive bad debts that are modest in relation to the overall loss.

The Federation of Small Businesses represents many of the businesses which are victims of serial failers. It is supporting a campaign for rules to restrict those demonstrating what it calls "phoenix company syndrome". Insolvency practitioners and some government departments are also informally involved in the campaign.

Mr Stephen Alambritis of the federation wants to see a new category of director, that of a "provisional director". This classification, he says, should be awarded by the Department of Trade and Industry to those who have been at the helm of several failed companies.

These directors should be required to file monthly financial returns for their companies, to enable others to track their condition

They would be required to disclose their track record so that all trade creditors would know of it. These directors, he says, should be required to file monthly financial returns for their companies to enable others to track their condition.

This would provide a discipline that insurance companies provide for other activities – a driver who habitually has accidents will be penalised through higher insurance premiums.

With company directors, the disciplinary mechanism is inefficient because the market is not universally well-informed. Sophisticated providers of credit such as banks have the resources to spot the serial failer, and larger companies can consult a credit rating agency. But small businesses need more help.

The Department of Trade and Industry says that the best solution is better enforcement of its powers to disqualify directors under the Insolvency Act of 1985. A director found to have failed to keep proper accounts, for instance, can be disqualified from a similar post for up to 15 years.

The department can demonstrate a sharp improvement in the performance of its Insolvency Service in dealing with disqualification recommendations.

In the year to April 1996 the service received 4,881 disqualification reports from official receivers and insolvency practitioners. Proceedings were commenced in 1,395 cases – about a quarter of those submitted – and disqualification orders made in 727 cases – just over half the total.

In 1995, by comparison, disqualification proceedings were brought in only 15 per cent of the 930 cases where they were recommended and disqualification orders were made in about 40 per cent of these.

The DTI argues against the need for any new rules such as those barring anyone who has been on the board of three or more failed companies from being a director. It also opposes pointing out the habitual failers, saying that this might unfairly tarnish a victim of bad luck.

But this misses the point. A person who is associated with several successive corporate collapses may have broken no law. But there will often be some factor which contributes to the series of failures – for example, a tendency to be over-optimistic in forecasting profits.

Even though there has been no wrongdoing, the information that a company is run by someone with such a track record should be available to those who do business with it.

The government rightly wants to avoid inhibiting enterprise, but there is more it could do to help successful entrepreneurs avoid colliding with those who are more accident-prone.

COMMENT & ANALYSIS

FINANCIAL TIMES
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Road from Singapore

For a meeting originally called with no real purpose in mind, last week's ministerial conference of the World Trade Organisation in Singapore produced a surprisingly positive outcome. Not only did WTO members avoid ill-tempered public disagreement. They hammered out an important accord to eliminate information technology tariffs and made useful progress in negotiations to open basic telecommunications markets.

The conference made two other contributions. It widened debate about the WTO's role beyond the limited horizons of the trade negotiating community in Geneva. It also helped to identify some priorities for the future. At the least, those achievements imply a wide recognition of the importance of the multilateral system. They are also a tribute to the diplomatic skills of Mr Renato Ruggiero, the WTO director-general.

The challenge now is to channel the political momentum into longer-term action. There are two overriding objectives. One is to tackle a daunting schedule of negotiations by the end of the decade. The WTO is already committed to talks on difficult subjects, including agriculture, services and anti-dumping. Last week's decision to set up working groups on competition policy, foreign investment and transparency in government procurement may add these issues to the list.

Only three years after the end of the Uruguay Round, most governments recoil from the thought of another such marathon.

Some "single sector" WTO negotiations, in telecommunications and financial services, have struggled so far to identify a convergence of interests. It is more elusive still in sectors such as textiles and agriculture. In those cases, it may prove hard to accelerate liberalisation without the trade-offs which omnibus rounds allow. That suggests the WTO's planned negotiations may coalesce into a round. Governments should lay the groundwork beforehand by setting goals and analysing the issues to be tackled.

The second priority is institutional reform. Though haggling between the US and European Union dominated last week's meeting, the two powers' hold on the trade agenda is weakening. Rapid export growth is giving a bigger say to emerging economies, notably in Asia. As a consequence, many more countries have a stake in the multilateral trade system. But these trends have also left the WTO without clear leadership. The problem can only grow as new members, such as China and Russia, join the WTO.

The WTO needs to continue to operate by consensus if all members are to be firmly committed to its rules. But it risks paralysis unless it devises better ways to run its affairs. There is a strong case for charging a steering committee, similar to the UN security council, with managing the WTO agenda.

A steering committee would also need to be responsive to a broad cross-section of countries' often divergent interests. That would require WTO members – particularly poorer ones – to organise themselves into groups capable of articulating and defending common priorities. Such reforms face many obstacles. Setting out purposefully to achieve them would be the most convincing way for governments to make good last week's promises of further multilateral co-operation.

Crimebusters

The fight against international crime, drugs trafficking and terrorism is the European Union's latest big idea. Germany and France, backed by the Irish presidency, persuaded most of their partners at the Dublin summit that a pan-European push to enhance the security of its citizens should be at the heart of the EU's new treaty.

The case for the Union to switch its focus to issues of direct relevance to its peoples has indisputable logic. Popular distrust of the Maastricht treaty derived largely from the perception that its preoccupations were those of the political elites. And, just as globalisation of financial and product markets has eroded national economic boundaries, so crime no longer respects geographical borders.

It is also fair to say that the provisions within Maastricht for enhanced intergovernmental co-operation in justice and home affairs have yet to yield significant results. Mr John Major's government, in particular, has dragged its feet for fear of offending the Eurosceptics in the Conservative party.

But there were also signs of confusion in Dublin between the laudable ambition of more effective action against crime and demands for a further institutional upheaval within the EU. Chancellor Helmut Kohl and President Jacques Chirac called for creation of a single European legal area, based on the harmonisation of national criminal codes. Mr Kohl envisages a Europol police agency which could apprehend criminals anywhere in the EU. Others back the idea of an extension of the Commission's competence into interior and justice matters and the introduction of majority voting.

There are serious dangers in a such an approach. The most obvious is that harmonisation will override entirely sensible differences in criminal codes. There is no reason, for example, to suppose the Netherlands' tolerant attitude towards personal consumption of soft drugs is less effective than France's more traditional approach.

More important, though, is the need to recognise that judicial systems depend for their legitimacy on clear and direct lines of democratic accountability. Criminal law cannot be made in Brussels by majority vote. Europe's fight against crime should be guided by practical co-operation rather than by institutional theology.

More mutuals

The decision by AMP, Australia's largest insurer, to abandon mutual status underlines the fact that mutuality is in retreat across the globe. Is it a redundant form of ownership which is no longer capable of satisfying the needs of customers? Or is the trend explained by the one argument that never appears in conversion documents – namely that share ownership brings the prospect of share options and incentive schemes for the directors?

No doubt many decisions are coloured by personal motivation. But in today's deregulated market place that may have as much to do with the directors' desire to preside over a growing business as the lure of share options. In much of the Anglo-Saxon world, for example, demographics no longer guarantee strong growth in home loans. The ageing of the population is much more helpful to long-term financial products such as pensions. A big British building society, to take the obvious case, cannot grow rapidly without exposure to wider financial services.

Moreover, finance is one of the few business areas where conglomeration makes sense, thanks to the opportunities in cross-selling. A large mutual that is narrowly confined to legally prescribed territory can thus be vulnerable, since its conglomerate competitors have the pricing flexibility to cherry pick its best customers.

Such competition is profoundly subversive of the mutual ethos. By taking away the richer customers, it makes it harder to persist in a redistributive policy of equal treatment for all customers regardless of their resources. But this will not deter mutuals lower down the scale from pursuing successful niche strategies.

The recent tendency for British building societies to pay dividends suggests that in areas where the original social aims have been largely achieved, mutuality will merely become a disguised form of share ownership. But the growing gaps in welfare and financial provision suggest that there will be new opportunities elsewhere. Nothing illustrates this better than the growth of credit unions in Britain, which are being formed at the rate of 50 to 100 a year. These mutuals offer unsecured loans to the poor at a fraction of the interest cost offered elsewhere. There will always be room for this kind of self-help.

A compromise on stability

Deft Irish handling of the EU summit ensured that economic and monetary union remains on track, says **Lionel Barber**

The European Union summit in Dublin flirted briefly with failure, but ended at the weekend in a mood of relief and self-congratulation.

Thanks to deft Irish chairmanship, ably supported by Luxembourg, a crisis between France and Germany over the terms of economic and monetary union was averted. Emu remains on track, a message reinforced with the long-awaited publication of the design of the new euro banknotes in Dublin and Frankfurt on Friday afternoon.

Yet behind the smiles, the future looks uncertain. Dublin barely addressed the reform of EU institutions and decision-making required by the intergovernmental conference (IGC), which is reviewing the Maastricht treaty. Meanwhile the final communiqué devoted only one paragraph to the Union's planned enlargement to central and eastern Europe.

The impression is that Emu is absorbing all of the EU's energies, especially after the 17-hour-long negotiations on the German-driven budget stability pact which ended on Friday. The final compromise left all sides proclaiming victory, but it could not dispel the feelings of mistrust between the French and the Germans.

In a narrow sense, the stability pact dispute turned on a definition of the circumstances in which countries joining the euro zone can avoid being penalised for running a deficit in excess of 3 per cent of gross domestic product, the limit prescribed in the Maastricht treaty.

The dispute quickly developed into a matter of principle: the conflict between German demands for a "stability culture", enforceable through numerical targets buttressed by an independent European central bank; and French counter-demands for maximum ministerial discretion in the imposition of penalties, under the slogan of "national sovereignty".

Time and again, Mr Theo Waigel, the German finance minister, accused Mr Jean Arthuis, his French counterpart, of retreating from what he saw as the spirit of Maastricht. The Frenchman wobbled, but refused to budge.

"I have never seen Theo get so angry with Jean," said one senior EU diplomat. "He thought the French were trying to pull the wool over his eyes." A German diplomat adds: "The problem was that both the French and the Germans could argue that they had the treaty on their side."

In the end, the Germans settled. But only because Mr Helmut Kohl, the German chancellor, had decided several days before that the risks of delaying a deal were too high. He had one eye on the financial markets which have become increasingly positive about the prospect of the single currency going ahead on schedule on January 1 1999, but his other worry was the likely damage to relations with Paris.

As Mr Kohl acknowledged in a news conference on Saturday afternoon: the Gaullist coalition government is in trouble, weakened by slow growth, high unemployment, and a political class split over the merits of the single currency which it sees as a recipe for deflation and austerity. But why did it take Bonn so long to sense the shift in French mood?

One explanation is that the German government was so concerned about its own fragile public support for surrendering the D-Mark that it lost sight of its own partner's predicament. "The Germans could have secured an even tougher stability pact three months ago," says a Benelux diplomat, "but they delayed in the hope they could obtain better terms."

The final Irish compromise on the stability pact is based on a Belgian proposal; it provides for a two-tier approach which Mr Kenneth Clarke, the UK chancellor, described as an "ingenious" solution.

Thus, member states which experience a fall in gross domestic product of at least 2 per cent over a year will qualify automatically for "exceptional" status, while a country suffering a fall in GDP of 0.75 per cent or lower may plead a special case to the Council of Ministers. In a gesture to President Jacques Chirac of France, EU leaders agreed to rechristen the agreement the "stability and growth pact".

The deal may prove more important in terms of psychology than economic logic. The stability pact's fines, which move on a sliding scale from 0.2 per cent of GDP to a ceiling of 0.5 per cent of GDP, are intended primarily as a deterrent; few expect the penalties to be applied in practice because of the explosive political consequences. Yet Germans can be reassured that the principle of fiscal discipline in the future euro zone is enshrined in regulations and a political declaration.

Mr Carlo Ciampi, Italy's veteran treasury minister, drew a broader conclusion from the negotiations, citing the need for a balance between technocrats and politicians in the future monetary union. His view was echoed by Mr Chirac who again called for a political counterweight to the future European central bank, perhaps through a new "stability council" comprised of ministers from Emu countries.

The question which Dublin failed to answer is how the Emu debate relates to the IGC, which is supposed to be wrapped up by next June at the Amsterdam summit but which could well slip to October because of uncertainty over the timing of the UK general election and the fate of the increasingly Euro-sceptic Tory government.

What is striking is the sheer amount of detail in the blueprint for Emu compared to the draft text of the Maastricht II treaty which the Irish presented at the summit.

The Dublin agreement on Emu contains not just the stability pact, but also a deal on a new "hub and spokes" exchange rate mechanism which will provide currency discipline between Emu "outs" and Emu "ins" built around the euro; and texts on the legal status of the single currency.

The 140-page Irish draft for Maastricht II is clear and readable, but leaves the most difficult questions to the incoming Dutch presidency. This was no more than was asked of the Irish; but it does not address seriously the balance of power between smaller and larger countries, the extension of majority voting, as well as "flexibility" allowing countries to co-operate more closely without being held back by recalcitrant members.

Mr John Bruton, the Irish prime minister, was only half exaggerating when he declared: "Over the next six months we are going to need the sort of inspiration of those who framed the Declaration of Independence – a large sense of vision."

France, in particular, has grumbled about the slow pace of the IGC, warning that failure to reform EU institutions will leave the Union incapable of taking in new members from central and eastern Europe, a view shared by almost all countries with the exception of the UK.

Yet one EU official involved in the Maastricht II conference says Paris is still uncertain about how far and how fast to surrender national sovereignty in areas ranging from border controls, immigration, and asylum to the common foreign and security policy. "The French cannot make up their mind. They are split in terms of personalities and parties."

France's refusal to show its full hand in the IGC is one of the causes of the strains with Germany. One senior German official likened Mr Chirac to an "eel" after last week's inconclusive Franco-German summit in Nuremberg which ended with a nine-page document which drew faint praise in Dublin.

Yet Dublin did offer some clues as to the course of events in the next few months as the pressure for a deal on Maastricht II grows, if only to keep the talks separate from Emu and enlargement.

The first incident occurred on Friday afternoon, towards the climax of the stability pact negotiations, when Mr Ruairi Quinn, the Irish finance minister, convened an informal group of ministers.

Present were Mr Waigel, Mr Jürgen Stark, his deputy, Mr Arthuis, and the ministers of the next two presidencies: Mr Gerrit Zalm, the Dutch finance minister, and Mr Jean-Claude Juncker, prime minister and finance minister of Luxembourg.

Mr Kenneth Clarke, the UK chancellor, was not on the privileged list but proceeded to invite himself. The fact that he was welcome is a tribute to his standing, but as one participant noted: "It does not set a precedent for the future if Britain stays out of monetary union."

The second development was the intervention of Mr Juncker whose skills in French, German and English, as well as his command of the Maastricht treaty, drew all-round praise.

Mr Juncker's virtuoso performance looks like a declaration of intent on behalf of the smaller states that they are not going to be sidelined or steamrollered by the bigger countries. It is all the more significant as the next two EU presidencies fall to the Netherlands and Luxembourg. "Junker's intervention was strategic," says an EU diplomat.

Mr Juncker happens to be a Christian Democrat protegé of Mr Kohl who remains as determined as ever to make monetary union the defining force in a united Europe in which Germany finds its secure place. According to one German diplomat, Mr Kohl spelt this out in stark terms to Mr Chirac on Friday.

"I could retire tomorrow. Everybody expects me to retire," Mr Kohl is quoted as saying, "but I am not going to retire. I'm staying on because I want to make sure the single currency goes ahead."

Players at the Dublin summit: (clockwise from top left) Chirac, Kohl, Bruton, Juncker, Clarke

· OBSERVER ·

Boy Boris carpeted

■ Not every regional governor from far-flung Russian provinces can count on getting the full treatment on arrival in London nowadays – if only because there are so many of them.

But the red carpet has just been laid out for Boris Nemtsov, the ebullient reformer whose boyish good looks have lent an improbable glamour to the smokestack region of Nizhny Novgorod, where he's been governor since 1991.

A diary full of one-to-one meetings with cabinet ministers and captains of industry – as well as an audience with Baroness Thatcher – awaited him. Apart from drumming up interest in his plans to raise $100m on the Euromarkets, Nemtsov also arrived with a tough message for Moscow's political and financial elite.

Russia, he said, faced a choice between "corrupt capitalism" and "democratic capitalism"; to ensure the latter, there had to be an end to monopolies in energy and transport, openness in public procurement and fair competition in the provision of banking services.

That's not the sort of language to make Moscow's political and financial fat cats purr with delight. Perhaps that's why Nemtsov – mooted as a Russian presidential candidate earlier this year – pledges to stay in Nizhny until his term expires in 1999; his ambition is to make it "Russia's Detroit".

But he has enemies in national politics, such as wild man Vladimir Zhirinovsky, who once threw orange juice in his face.

Nemtsov seems unimpressed by Zhirinovsky's latest thinking, which holds that western armies will never invade Russia because they can't survive without filter coffee. "There is one hotel in Nizhny where the coffee is excellent," the governor insists, albeit rather defensively.

Belarus licked

■ Stamp collectors, take note. Europe's latest "strong man", Alexander Lukashenko of Belarus, has decided to grace a special-issue postage stamp with his moustachioed countenance. Democratic leaders usually wait humbly for posthumous recognition but Lukashenko's aides believe he deserves immortality in the wake of last month's successful grab for power.

One Lukashenko costs 2,500 Belarus rubles – or about 11 US cents – but he's far from being first off the mark in getting his head perforated. The presidents of Kazakhstan and Turkmenistan in central Asia have beaten him to it; blossoming democracies or not, it seems the people have had as much say in the latest philatelic personality cult as EU citizens have been given in choosing the newly-unveiled euro.

Chirac stamps

■ Talking of the euro, the inevitable fuss over the designs for the banknotes which broke during the Dublin summit didn't develop in an entirely predictable way.

True enough, Greece was hopping mad over the omission of the Aegean Islands and Crete; Spain complained about the missing Balearic islands and the British were concerned about having lost the Isle of Wight. But Prime minister John Major chose, instead, to concentrate on the need to secure a decent space for the Queen's head on the new euro notes – should Britain ever decide to scrap sterling.

He won another sniffy reception. But not, it seems, because the idea was insufficiently *communautaire*. On this issue at least the first prize for chauvinism went to French president Jacques Chirac. With customary *hauteur*, Chirac explained that he didn't want national emblems on the notes because France would be flooded with currency bearing alien logos.

Tourists, he explained, would arrive with euro notes bearing Swedish or German symbols and depart with French notes. Pretty soon, proud citizens of the French Republic would be left with nothing but nasty foreign money; better then to keep the notes anonymous. How's that for European spirit?

Flying doc

■ Airline passengers had better think again if they believe doctors are anxious to help when the captain asks for medical assistance. On a recent flight between Tokyo and Frankfurt, a German psychiatrist was pressed into action when no medical doctor came forward.

After treating an injured passenger, the professor was told by the cabin crew that doctors were often reluctant to come forward. He's subsequently learned that doctors, particularly on flights to and from the US, won't identify themselves because of fear of being sued. But making an unscheduled stop can cost an airline up to $500,000, so carriers don't want reluctant medics on board. Hence an extra item added to the emergency kit carried by several leading airlines – a leaflet outlining the special insurance cover provided for doctors operating on board.

The Financial Times

100 years ago

So-called Coal
Black carbonaceous mineral is not always coal, and the good folk who have floated a company to work the Algoma coal mines in Ontario may find that their so-called coal is only anthraxolite or coal-stone – of no practical value. At least, that is what Mr. A. McCharles says in his communication to the New York "Mining and Engineering Journal." This may mean all the difference in the world between dividends and waste paper. Mr. McCharles saw two specimens in July last and condemned them out of hand. The coaly material, however, will burn, which is something to be grateful for, although Professor Coleman seems to think it of value only for local use – in a heavily timbered country, be it noted.

50 years ago

M. Schuman's Plan
Following his acceptance of the premiership, M. Blum is expected to announce to-morrow the formation of a Ministry including M. Schuman as Minister of Finance. If M. Schuman remains in office after the election of the President of the Republic, he will set about the execution of a programme already outlined. It consists essentially of a policy of drastic retrenchment.

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Some countries may resist proposal for union-wide safeguards

Move to protect consumers in EU from dangerous foods

By Caroline Southey in Brussels

Mr Franz Fischler, the European agriculture commissioner, will today propose setting up a body with far-reaching powers to protect consumers in the European Union from dangerous foods, such as beef from cattle infected with BSE, or mad cow disease.

His plan seems certain to provoke renewed confrontation with EU member states determined to preserve their national authority over such a politically sensitive area. Some countries, particularly the UK, will fiercely resist any moves to cede power to a Brussels-based body.

Mr Fischler, who will present the scheme immediately before today's EU farm ministers' council in Brussels, is convinced the present system does not provide adequate health protection.

"National perspectives are playing an undesirable role in community decision-making," he told members of the European Parliament recently.

The agriculture commissioner is expected to call for sanctions against EU countries which fail to protect consumers and for reforms to ensure the independence of scientists charged with making decisions on dangerous, or potentially dangerous, diseases.

The independent agency he is proposing would be less powerful than the US Food and Drugs Administration, which has sweeping authority to control the distribution of suspect foodstuffs and impose sanctions. However, Mr Fischler believes the FDA commands public respect because it is perceived to be politically independent.

He is expected to call for curbs on the powers of EU member states and the EU's standing veterinary committee, which consists of national experts and advises on food safety measures. Mr Fischler has previously questioned whether the committee is sufficiently independent of national interests and lobby groups.

Instead, he will argue that a new system of appointments should be established to ensure the independence of scientists and vets charged with advising the EU on food and health issues.

Mr Fischler's announcement comes as the European parliament wraps up its inquiry into the management of the crisis sparked by BSE. The inquiry's final report, due out early next year, is expected to find that the crisis was mismanaged by national governments and the European commission.

The inquiry has uncovered a catalogue of poor decisions and oversights by officials charged with containing the BSE crisis. The most damaging accusation has been that Commission and member state officials placed greater emphasis on protecting the beef market than protecting consumers.

Ms Emma Bonino, consumer affairs commissioner, told the inquiry last week that decisions on BSE had been driven by agricultural interests. "The market is made up of producers and consumers. Producers currently have far more power. Balance must be restored," she said.

S. Korean multinationals await ruling on foreign exchange losses

Regulators set to allow leading corporations special exemption

By John Burton in Seoul

South Korean regulators are expected to approve accounting changes which will allow the country's largest multinational corporations not to report huge foreign exchange losses this year caused by a rapid fall in the value of the Korean currency, the won.

The Securities Supervisory Board says it is considering a special rule to allow listed companies to exclude most currency losses on foreign debt payments from their 1996 earnings statements. Instead, the losses will be capitalised on the balance sheet.

The proposed rule, which is estimated to save companies from reporting almost $3bn in foreign exchange losses for fiscal 1996, would help them avoid difficulty in borrowing abroad or issuing bonds and stocks overseas by improving their earnings statements.

"This means the corporate figures will be very distorted for 1996 and the accounts will be even less trustworthy than normal," said Mr Park Jae-won, head of research at Hannuri Salomon Securities in Seoul.

Equities analysts complain that Korean accounting practices are subject to widespread manipulation and frequently give a misleading picture of the financial performance of many companies. "It amounts to accounting alchemy," said Mr Matt Cleary of HG Asia Securities in Seoul.

The new rule would blunt the negative impact on corporate earnings caused by the government's apparent decision to allow the won to fall against the US dollar by more than 8 per cent this year.

Officials hope a weaker won will help halt a rapid deterioration in the current account deficit, which is expected to reach a record $22bn in 1996, by boosting exports. Daewoo Economic Research Institute said the 2,500bn won in estimated foreign exchange losses is equivalent to 24 per cent of total earnings reported by listed companies last year.

Even without the foreign exchange losses, Korean companies are expected to report sharply lower profits this year due to a slowdown in economic growth and exports.

Among the companies that would benefit most from the accounting rule change are such big foreign borrowers as Korea Electric Power, Korean Air, Hanjin Shipping, Yukong, Ssangyong Oil and Daewoo Heavy Industries.

HG Asia Securities estimated that Korea Electric Power would suffer a 39 per cent fall in 1996 net profits to 557bn won if foreign exchange valuation losses are included. But earnings would jump to 782bn won, only 1 per cent less than 1995, if they are excluded.

Losses for Korean Air would narrow to 111bn won from a 1996 forecast of 267bn won if the new rule is approved.

Meanwhile, banks and other financial institutions are lobbying the government to approve the extension of an accounting rule from last year that allows them to reserve only 30 per cent of their losses on stock investments instead of 100 per cent.

The lower reserve ratio last year saved some of Korea's biggest banks from reporting net losses. Stock valuation losses for the banks have increased this year to an estimated $4.3bn because of a slump in the Seoul bourse, which would put most large commercial banks in the red.

Korean semiconductor companies are also resorting to accounting changes to avoid reporting 1996 net losses caused by a sharp fall in the global price for memory chips.

Boeing merger

Continued From Page 1

it with an even more formidable competitor.

The US government has not hesitated to put pressure on foreign governments such as Saudi Arabia to buy aircraft from both Boeing and McDonnell Douglas.

With the groups merging, the US government sales effort is likely to be even more concentrated in future.

Japan agrees to open up its insurance sector

Continued from Page 1

ment, which resolves one of the most contentious trade issues between the two countries over the past year.

The US issued a statement via its embassy in Tokyo describing the measures as representing a "fundamental change in the Japanese insurance market, making it more open and competitive".

The agreement was reached just before yesterday's self-imposed deadline that the US and Japan had set for themselves. The deal is in line with Mr Hashimoto's plan to deregulate most of the financial sector by 2001 in a Japanese "Big Bang".

In particular, deregulation of non-life insurance premiums, which the US had been demanding, is likely to trigger a substantial consolidation of the industry as weaker companies, which have hitherto been shielded from severe competition by regulated rates, succumb to new market pressures.

Although the Japanese authorities introduced several deregulation measures earlier this year, the US had charged that these did not constitute the meaningful deregulation Japan had agreed to introduce in a 1994 bilateral insurance accord.

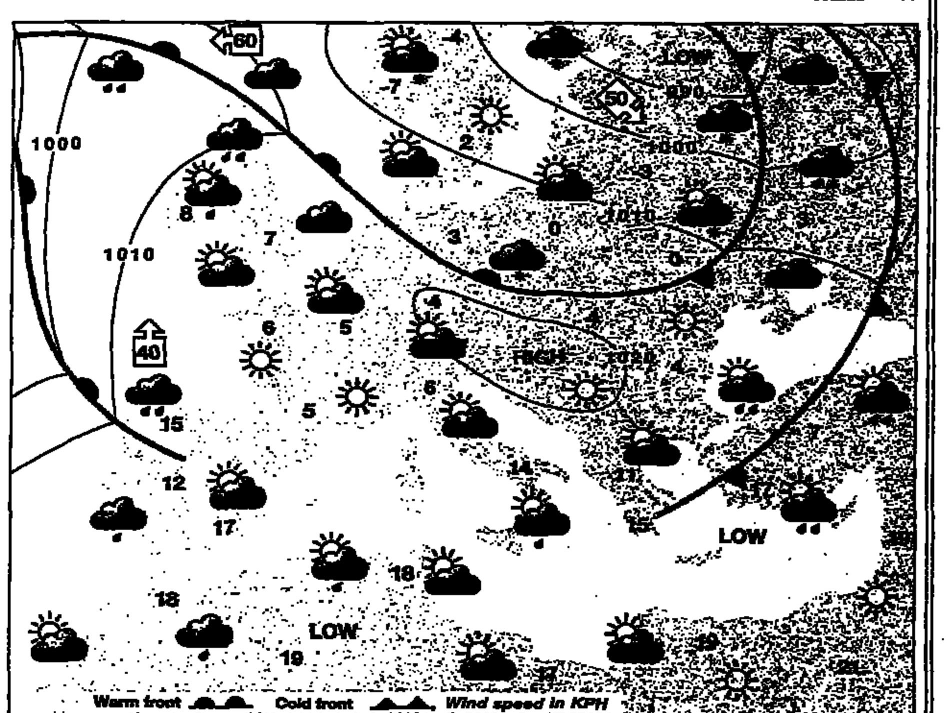
FT WEATHER GUIDE

Europe today

A warm front will bring cloud to the Benelux with some drizzle in the morning. As the front moves north, there will be some sunny spells in the south during the afternoon.
Central France will be sunny and the rest of France will have mixed sun and cloud.
The western Iberian peninsula will have rain ahead of a frontal system.
Switzerland and Austria will have sunny periods.
The Balkans and Greece will be sunny. Turkey will have rain.

Five-day forecast

The western part of Continent will have rain as a frontal system approaches from the Atlantic.
A section of the front will produce rain in Italy and the Balkans in the second half of the week.
Another front will bring light rain to the British Isles, North Sea and eastern Europe.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	sun 2	Caracas	fair 30	Faro	rain 18	Madrid	cloudy 12	Rangoon	sun 32
	Celsius	Belfast	fair 8	Cardiff	cloudy 8	Frankfurt	cloudy 5	Majorca	fair 15	Reykjavik	fair -6
Abu Dhabi	sun 24	Belgrade	fair 6	Casablanca	cloudy 20	Geneva	sun 5	Malta	fair 17	Rio	shower 28
Accra	fair 32	Berlin	sleet 3	Chicago	snow 1	Gibraltar	rain 17	Manchester	fair 7	Rome	sun 16
Algiers	cloudy 18	Bermuda	rain 20	Cologne	cloudy 5	Glasgow	rain 8	Manila	fair 29	S. Frsco	sun 15
Amsterdam	drzzl 7	Bogota	cloudy 20	Dakar	sun 31	Hamburg	drzzl 4	Melbourne	fair 20	Seoul	fair 9
Athens	fair 15	Bombay	sun 33	Dallas	cloudy 10	Helsinki	snow -4	Mexico City	fair 22	Singapore	shower 31
Atlanta	cloudy 13	Brussels	fair 6	Delhi	sun 23	Hong Kong	fair 23	Miami	sun 26	Stockholm	fair -4
B. Aires	sun 29	Budapest	sun 4	Dubai	sun 25	Honolulu	shower 26	Milan	fair 7	Strasbourg	fair 5
B.ham	fair 8	C.hagen	fair 1	Dublin	cloudy 8	Istanbul	shower 13	Montreal	rain 3	Sydney	fair 30
Bangkok	fair 33	Cairo	sun 22	Dubrovnik	sun 15	Jakarta	rain 28	Moscow	snow 0	Tangier	rain 18
Barcelona	fair 13	Cape Town	fair 27	Edinburgh	cloudy 9	Jersey	fair 6	Munich	fair 4	Tel Aviv	fair 19
						Karachi	sun 28	Nairobi	fair 25	Tokyo	fair 12
						Kuwait	fair 20	Naples	sun 14	Toronto	rain 4
						L. Angeles	sun 24	Nassau	fair 25	Vancouver	fair 5
						Las Palmas	fair 23	New York	cloudy 7	Venice	fair 8
						Lima	fair 22	Nice	fair 15	Vienna	fair 7
						Lisbon	rain 17	Nicosia	shower 19	Warsaw	fair 0
						London	fair 9	Oslo	sun -5	Washington	fair 9
						Lux.bourg	fair 2	Paris	fair 5	Wellington	fair 16
						Lyon	sun 5	Perth	cloudy 25	Winnipeg	snow-10
						Madeira	shower 20	Prague	sleet 3	Zurich	fair 2

THE LEX COLUMN

High flyers

McDonnell Douglas's willingness to see its proud name obliterated in its "merger" with Boeing is the best indication of how cool business logic is driving the restructuring of the US defence and aerospace industry. The new enlarged Boeing will not only strengthen its pre-eminent global position in civil aviation; it will run Lockheed Martin a close second in military aircraft.

Boeing is understandably anxious to play down suggestions of massive job cuts. But its target of saving $1bn a year shows it thinks serious money can be made from the combination. MD's civilian line-up will not vanish overnight. But, as much the weakest of the world's big three manufacturers, its days are numbered.

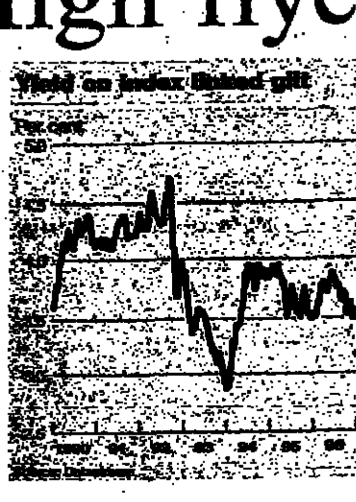
In the short term, the buoyant market for new aircraft means Boeing will be able to subcontract work to MD's under-utilised factories. A common marketing approach should also ensure the two companies do not cut each others' throats where they do compete. Longer term, Boeing will enjoy economies of scale from a single product line and should be well-placed to inherit MD's airline customers.

In the military field, MD has also been looking weak following its exclusion from bidding for the Pentagon's next generation strike fighter. Boeing, still in the running with Lockheed, will now have a better chance of winning. Add in Rockwell's defence interests, which Boeing recently agreed to buy, and the group has become a serious force in defence.

The new Boeing chief's boast – "We can lead the world" – is not idle. The deal certainly threatens to marginalise Europe's splintered defence and aerospace industries. If it does not put a rocket up Europe's politicians who are delaying necessary restructuring, nothing will.

Airbus

The contrast between the US and European aerospace industries could hardly be starker. While Boeing and McDonnell Douglas are racing ahead with their merger, Europe's aerospace groups are still squabbling over how to create a proper company out of Airbus. All partners supposedly agree the current consortium – where each partner is guaranteed a share of the work and decisions require unanimity – is not well suited to meet the competitive threat from Boeing, even before the MD merger. But



Aérospatiale is resisting British and German plans for Airbus to take over its partners' factories.

If the French group was pushing this line because it wanted Airbus to be free to play off one supplier against another its position would have merit. But that is the last thing on its mind. Aérospatiale's real concern seems to be that, once shorn of its civil aircraft factories, it will be have a rump of second-tier missile, helicopter and satellite businesses. Even its planned merger with Dassault will merely add a second-tier fighter aircraft group.

Hence, presumably, Aérospatiale's scheme for expanding Airbus to encompass these rump businesses. Again, the idea of combining civilian and defence operations in a single group is not bad in theory. Boeing and MD are doing precisely that. But, in Europe, this is likely to be even more fraught with difficulty than integrating civilian activities: just look at France's chauvinist approach to Thomson's privatisation. By playing the defence card, Aérospatiale is trying to run before it can walk. The risk is that Airbus's restructuring will grind to a halt allowing Boeing to move even further ahead.

Real yields

Bullish investors have found another reason for believing financial markets will rally further – the expectation of falling real interest rates. Normal bond yields are made up of three parts: a real yield, expected inflation and a risk premium to compensate for the volatility of inflation. The strong bond markets of the past two years have largely been driven by lower inflation expectations in most industrialised countries. Now there are hopes that a lower risk premium associated with more stable inflation and falling real yields could give a further boost to bonds – and equities too.

The theory is plausible enough. Sound money, more stable exchange rates and fiscal probity should have exactly such effects. And though it is hard to observe real yields directly – except in countries like Britain, which have inflation-linked bonds – a fall seems to have occurred, particularly in recent months. With consensus long-term projections for continued low inflation, foreign exchanges less volatile and the IMF forecasting structural budget balances in industrial countries to fall to only 1.6 per cent of GDP next year, it is easy to hope for more of the same.

Easy, but risky. With stronger economic growth expected in many countries next year, the demand for funds could push real interest rates higher. Longer term, real yields may still fall – if governments become more responsible in managing their economies. The short-term risk is for an upward correction.

Stock Exchange

The London Stock Exchange has found itself stuck between a rock and a hard place. On the one hand, the government, regulators and a number of small brokers are shouting for a more transparent market. In particular, they want an end to the marketmakers' privilege of delaying disclosure of big trades for an hour so they can offload their risk. On the other side are many big fund managers and, of course, the big marketmakers themselves. They argue that, without the privilege, marketmakers would be reluctant to trade large blocks of shares. If so, the big risk trades – which account for around 25 per cent of London's trading volumes – would shift offshore.

Given the marketmakers' power within the exchange, it is not surprising they have got their way. But the exchange's decision was still not a bad one – for the moment. There may be some bluff in the marketmakers' threats. But it would have been risky to call that bluff at the same time that a new electronic dealing system is being introduced. At least, there will be no less disclosure than at present. And, once the new dealing system has bedded down, it should be possible to introduce further transparency.

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FINANCIAL TIMES
COMPANIES & MARKETS

Monday December 16 1996

National partners split over Airbus future

French resist plan for consortium to take control of manufacturing

By Michael Skapinker and Hugo Dixon in London

Aérospatiale of France is resisting UK and German plans for Airbus Industrie, the European consortium, to take over the management of its shareholders' aircraft factories.

British Aerospace and Daimler-Benz Aerospace (Dasa) of Germany are pushing for Airbus to become a fully-fledged aircraft manufacturer when it is transformed into a limited company in three years.

This would involve the consortium taking charge of the Airbus manufacturing facilities of its four shareholders – Aérospatiale and Dasa, which each own 37.9 per cent, British Aerospace, which has 20 per cent, and Casa of Spain, which owns 4.2 per cent.

The four partners decided earlier this year that Airbus should abandon its status as a *Groupement d'Intérêt Economique*, whose profits and losses accrue to its shareholding companies. The partners believe that as a profit-making company, Airbus will be able to reduce costs and sharpen decision-making in its battle against Boeing of the US, the world's biggest aircraft maker, which is planning to a merger with its US rival McDonnell Douglas.

They disagree, however, about the form the new European company should take, with Aérospatiale insisting that too radical a change could threaten Airbus's ability to cope with an upturn in aircraft orders. Airbus is at present responsible for designing and selling aircraft, with the partner companies taking care of manufacturing.

Mr François Auque, Aérospatiale's finance director, says Airbus should be cautious about changing this arrangement. Airbus deliveries to customers will increase from 126 this year to 230 in 1999. Mr Auque argues that Airbus executives do not yet have the experience to manage such an increase in output.

"It takes time to build a management team that can deal with 40,000 people all over Europe," he says.

German and UK executives had believed the French were coming round to their view that manufacturing assets should be taken over by Airbus. However, it is understood that at a meeting of the Airbus supervisory board in Toulouse on Friday, the French once again argued the partner companies should retain ownership of their factories.

Aérospatiale is also at odds with BAe and Dasa over the extent to which Airbus should become involved in military activities. The British and Germans believe Airbus should confine itself to building military transport aircraft.

However, Aérospatiale argues that if Airbus is to compete with Boeing, it must increase the proportion of its sales that come from defence products. The French company would like Airbus to build fighters and missiles as well.

Lex, Page 16

Telecoms companies face scrabble for funds and market share

Ring of truth about US mobile phone boom

And the US's most popular electronic gadget of 1996 looks set to be... the mobile telephone.

With Christmas sales proving strong, some 45m Americans will soon be packing a phone in their pocket, handbag or glove compartment – a third more than a year ago. The switch from expensive yuppie toy to everyday appliance is well under way.

Yet these are uncertain times for US mobile telecommunications companies. The financial markets, which have provided billions of dollars in equity and debt to finance the industry's growth, have become more wary, even though this is set to remain the fastest growing area of the telecoms business.

"Wall Street is waking up to how much it has to finance," says Mr David Roddy, telecoms economist at Deloitte & Touche.

The biggest mobile telephone groups have plenty of money. Sprint PCS, a start-up partnership between a long-distance telephone company and three cable television groups, says it has nearly $10bn of financing available to back its nationwide mobile ambitions.

"But everybody else is scrabbling for money," Mr Roddy adds.

The industry's rapid expansion, its gigantic capital demands and the recent uncertainty all stem from the same thing: the opening of the US airwaves to competition.

Last month, the first of a new wave of competitors began to sell its services. Sprint PCS, which will rival AT&T for the widest reach of any US mobile telephone company, will unveil its launch plans today.

Personal communication services (PCS) companies have obtained the right to use a high-frequency part of the radio spectrum auctioned off by the Federal government. Rather than just two traditional cellular providers in each city, many Americans will soon have the choice of five or more.

There are two views about the impact of all this. One holds that, with competition bringing lower prices and better services, the mobile telecoms business is on the brink of a wave of profitable growth.

The new PCS companies point to the UK experience as justification for their optimism.

Orange, a relatively new national service, has shown that telecoms brands can be created from scratch, says Mr Don Warkentin, chief executive of Aerial Communications, a PCS company.

Mr Andrew Sukawaty, chief executive of Sprint PCS, adds that the UK is "a very healthy market".

The less benign view is that PCS will not live up to the extravagant promises that have been made for it: that its signals are clearer, its handsets lighter and its batteries less prone to drying up in mid-call.

There is certainly plenty of room for disappointment on the technical front. "Will people notice it as a breakthrough? I doubt it," says Mr Bill Pallone, vice-president of market development for mobile telecoms at GTE, a cellular company that also has some PCS licences.

Mr Pallone adds, though, that there should be many fewer dropped calls.

Perhaps even more important, new PCS customers will find their handsets of limited geographical use.

In the free-for-all that has developed, the US has ended up with three incompatible mobile telephone standards – CDMA, TDMA and GSM. The ability to make a call from outside a local area remains limited.

Another problem holding back the US mobile industry has been a pricing structure that discourages phones use.

Mr George Schmitt, president of Omnipoint, another PCS company, says the average bill of a US mobile telephone customer is barely half the $100 a month of a German subscriber. A US convention requires mobile users to pay for calls they receive which, he says, means many Americans are loath to give out their mobile numbers.

PCS companies have at least been able to rationalise some aspects of pricing. In the traditional cellular business, handsets have been given away but customers have been signed up to long-term fixed contracts. Mr Schmitt says this "ridiculous" practice means a quarter of all handset owners in the US neither make nor receive any calls in a given month. Call rates have varied greatly.

PCS customers, by contrast, will have to pay $150-$200 for a handset, but will not suffer long-term contracts or activation or other one-off fees. They will also face a simpler charging structure.

Like other parts of the US telecoms market, simpler pricing will eventually make it easier for carriers to assemble "bundles" of services, ranging from long-distance service to Internet access.

Prices will also fall. So far, PCS companies talk of competing mainly on service, rather than price. PrimeCo, the only one to launch widely so far, pitched its calling rates just 5-10 per cent below cellular. But with a growing number of carriers appearing, a price war seems inevitable.

In 10 years, predicts Mr Roddy, the US mobile business could be worth $100bn a year. How many of the new PCS carriers make it to this promised land remains to be seen.

Richard Waters

BIGGEST US CELLULAR AND PCS COMPANIES

Service	Pops*
Cellular	
AT&T Cellular	70.8
Bell Alantic NYNEX mobile	54.5
GTE Mobilenet	52.3
AirTouch	42.9
BellSouth	40.5
PCS	
Sprint Spectrum	191.8
AT&T PCS	111.7
NextWave	109.2
PCS Primeco	61.0
OmniPoint	40.1

* Millions of people in areas covered by licences. Source: Salomon Brothers

Mondiale first with pensions top-up company

By Andrew Jack in Paris

One of France's largest mutual insurance groups has created what it claims is the first company dedicated to offering top-up pensions to the country's private sector employees

The move has come ahead of final approval of legislation set to permit the creation of private pensions to complement the cash-strapped state system.

Mondiale said it had created a limited liability company, designed to manage funds paid in by the 14m private sector employees and their employers, and was ready to launch its services.

The announcement comes after the French Senate voted on Friday to approve draft legislation for the creation of private complementary pensions.

The proposals would provide tax incentives to employees and companies making contributions to complementary pensions, aligning them with existing top-up retirement schemes for civil servants and the self-employed.

Senate approval came after the government responded to political pressure and reduced the maximum exemptions from social security contributions that employers would be able to claim by paying into the new pension funds.

The action by Mondiale marks a significant step in a looming fight by domestic and foreign financial services groups to gain access to the new market.

A number of French insurers including Axa, which last month announced a friendly takeover of its competitor UAP, have said they are ready to launch products. Banks and other financial institutions are also studying the situation.

The draft pensions fund law is scheduled to be discussed again in the National Assembly in January.

Mr Patrice Bonin, head of Mondiale retirement savings funds, the new company, said he believed that complementary pension funds would be available from next summer.

He was confident that his company was sufficiently flexible to absorb any modifications made to the pension fund legislation.

However, he argued that some estimates exaggerated the amounts of money likely to be paid into the new pension funds. He predicted that total contributions in the medium term were likely to be about FFr15bn ($2.8bn) a year.

Margins in the market would be thin, he added, partly because of considerable information technology costs.

Mondiale's new pension fund company has been created with the minimum legal capital of FFr5m, but Mr Bonin said his objective was to increase it gradually to FFr100m.

INSIDE

David Brown

David Brown Group, the UK manufacturer of industrial gears and pumps, is contemplating a big expansion in North America with a $120m-$160m acquisition. In what could be the largest deal since the group's 1993 flotation, it has begun talks with several US companies. Page 18

Fund Management

Almost five years after he joined Fidelity International, the City of London-based fund management house which controls the non-US interests of Fidelity, Mr Simon Roberts will finally become a fund manager on January 1. His wait epitomises the system run by Fidelity, the Boston-based fund management giant. Page 18

At a premium

Japanese banks are once more having to pay a premium to borrow in the international interbank market, due to renewed worries about risk in the financial system amid an end-of-year fundraising rush. Page 18

Eastern promise

The success of last week's capital increase by Banque Libanaise pour le Commerce, Lebanon's 13th largest bank, highlighted investors' rising appetite for instruments from the Middle East and North Africa. Page 21

An unlikely candidate

Mr Duncan Lewis, who quit unexpectedly last week as chief executive of Granada's media business, is unlikely to become a candidate for the top job at Cable and Wireless Communications, the new cable television and telephone group. It is believed he will consider a return to the world of information technology after a bruising eight months in television. Page 18

STATISTICS

COMPANIES IN THIS ISSUE

Foreign groups to control Kazakhstan gold mine

By Sander Thoenes in Almaty

Bakyrchik Gold and Indochina Goldfields yesterday announced a deal with the government of Kazakhstan for full ownership of one of the world's largest undeveloped gold mines.

Bakyrchik Gold, listed on the London Stock Exchange, will raise its stake in the Bakyrchik mine from 40 to 85 per cent, with Indochina Goldfields, listed in Toronto, buying the remaining 15 per cent from the state.

Bakyrchik Gold paid a $5m bonus when the deal was signed on Friday night and, together with Indochina, pledged to pay $60m in four instalments over the next 16 months.

The two are committed to investing at least $150m over the next 10 years.

Bakyrchik, which is estimated to hold 10.5m troy ounces of gold at an average grade of 6.94 grammes per tonne, has been run by the joint venture since 1993.

It is the first large gold mine in the former Soviet Union to come under full control of foreign investors.

The government of Kazakhstan is still considering the long-awaited sale of an 80 per cent stake in the Vasilkovskoye mine, second only to Bakyrchik, to Teck Corporation of Canada and First Dynasty, the US mining company.

"It's a very important step for the country to contemplate a 100 per cent privatisation of a gold mine," said Mr Robert Friedland, director of Bakyrchik and chairman of Indochina Goldfields. "This puts the country ahead of Russia and other neighbours in its attitude to foreign investment."

The deal is sure to be controversial in a region where governments are routinely accused of selling off the nation's wealth to foreigners, especially since the original local venture ran out of funds. A Kazakh official said the enterprise "will pay taxes, royalties and salaries. That's our priority".

Mr Friedland said the $65m in payments supplemented earlier investments and would precede production, which will resume in 1999 at the earliest.

Bakyrchik incurred a $52.9m loss before it decided to shut the existing processing plant in summer.

Indochina, which owns 26.3 per cent of Bakyrchik Gold, has pledged a $20m loan for working capital in addition to its $20m contribution to the purchase.

Bakyrchik will release results of a feasibility study on the mine in January before setting production targets and deciding whether to buy processing equipment from Lurgi Energie, of Germany, to replace technology which failed to address the ore's high carbon content.

Northern chief in last-ditch takeover defence

By Simon Holberton

Mr David Morris, chairman of Northern Electric, embarks on a series of meetings with big shareholders this week in a last-ditch effort to defeat CalEnergy's £782m ($1.28bn) hostile bid, which closes on Friday.

He will tell shareholders that not only does the US power producer's 650p-a-share bid undervalue Northern, but acceptance of it would set a bad precedent for the takeover value of investors' holdings in the three remaining electricity companies.

The prospect of further bids in the sector was opened up on Friday when Mr Ian Lang, trade and industry secretary, cleared CalEnergy's bid. Mr Lang said he would only refer bids to the Monopolies and Mergers Commission if he thought they posed issues of competition.

Its bid represents a multiple of 5.9 times Northern's cash flow – profit before interest, tax and depreciation. This compares with a multiple of 6.5 times for East Midlands, the electricity company which agreed a £1.3bn offer from Dominion Resources of the US. Dominion hopes its bid will receive government approval this week.

CalEnergy owns, or has acceptances for, shares representing 33 per cent of Northern, putting it in a very strong position.

Most sector analysts believe that the US company will prevail although the bid has become more close run. Northern has put up a spirited defence and some large institutions, the Prudential, M&G and Foreign and Colonial among them, have indicated that they will oppose the bid.

The Northern camp is also confident of the support of a large proportion of its small shareholders, most of whom live in the north-east of England. They own about 17 per cent.

If Northern's calculations prove correct, the bid will be decided by 30-40 per cent of shareholders. Among these are arbitrageurs and index funds with small holdings.

"There's a possibility, not a big one, that Northern might defeat the bid," said one utilities analyst. "The market – at 642p on Friday – is saying they're dead, but it's quite finely balanced."

Over the weekend rumours were circulating that London Electricity, which is in discussions to merge its electricity and gas-supply business with Northern, was close to announcing an agreed deal with a foreign bidder.

David Brown looks for US acquisition

By Tim Burt

David Brown Group, the UK manufacturer of industrial gears and pumps, is contemplating a big expansion in North America with a £75m-£100m ($123m - $164m) acquisition.

In what could be the largest deal since the group's 1993 flotation, the company has begun talks with several US gear companies.

Mr Chris Cook, David Brown's chairman, has told colleagues the company could spend up to £150m.

In a bid to kick-start the process, Mr Cook yesterday flew to New York for meetings with advisers and rival gear manufacturers.

The company has hired Gleacher NatWest, the US investment banking subsidiary of NatWest Markets, to seek takeover candidates.

Mr Cook has signalled that the group, which has a market capitalisation of £154m, would be ready to issue paper to fund such a deal within the next 12 months.

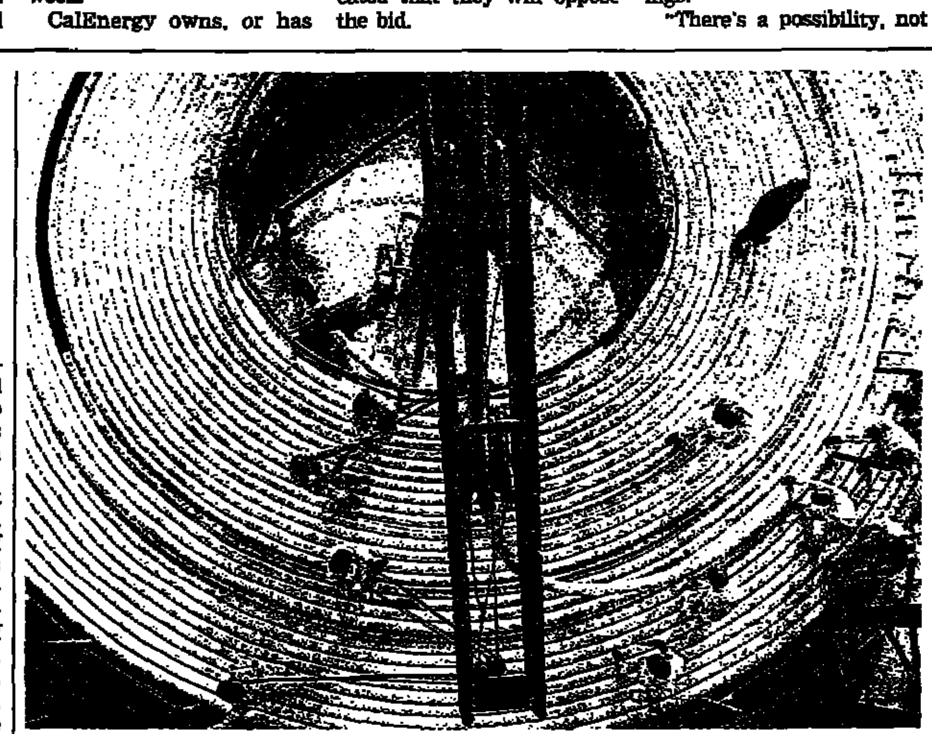
David Brown, one of Europe's largest manufacturers of heavy industrial and specialist gears, is keen to tap the fragmented US gears market, said to be worth £750m a year.

Mr Cook spelt out that ambition earlier this year, when he told a meeting of US engineering executives that the industry was polarising between regional specialists and a vanguard of international manufacturers.

David Brown, which puts itself in the latter category, is also thought to have made an informal approach to BTR about acquiring the conglomerate's Hansen, Stephan and Rexnord gears subsidiaries – but the move has been rebuffed.

Separate talks have taken place with one of its German competitors about a possible manufacturing joint venture.

Profits in the industrial gears division rose last year from £3.21m to £5.61m on increased sales of £68.7m (£42.2m). Total pre-tax profits rose from £12.5m to £14.1m on turnover of £161.2m (£125.7m).



Ever increasing circles: undersea power cables being loaded on board ship

BICC continues expansion

BICC, the cables and construction group, is today expected to announce the latest stage of its £215m expansion programme with a £25m investment at its high voltage cable plant in Erith, Kent, writes Tim Burt.

The company, which is investing heavily in higher margin cable and optical fibre production, is extending the plant to manufacture undersea power cables. Such submarine cables are currently being delivered by BICC for the mainland-Isle of Wight power link.

The investment is expected to create up to 60 new jobs at the Erith plant.

BICC, meanwhile, distanced itself from analysts suggestions last Friday that it was experiencing weakness in its Balfour Beatty construction arm and difficulties in its German cabling operations.

The shares fell 11½p to 258p, a low for the year, on fears of an earnings downgrade. The company said it saw no reason for such a move.

Standard Life lifts new premiums

By William Lewis, Investment Correspondent

Standard Life, the mutual life and pensions company, yesterday announced total new premiums up by 43 per cent at almost £2bn for the year to November 15.

The company said it had experienced particularly strong growth in personal pensions with new annual premiums increasing by 58 per cent to £92m and single premiums rising by 43 per cent to £630m.

The growth in personal pensions came in spite of the investigations by UK financial regulators into poor pensions advice given to consumers. "The growth is down to people being less unsure that they are going to be in employment next year," said Mr Tom King, corporate affairs director.

Standard Life also said the results showed that it had recovered from the termination of its link with Halifax Building Society, which in 1995 had led to a 33 per cent fall in new premiums. Mr King said that 85 per cent of the £1.96bn of total new premiums in 1996 had come through independent financial advisers (IFAs).

New annual premium business was up by 26 per cent at £188m, and single premium business up by 45 per cent at £1.77bn. New annual premiums from mortgage endowments were down by 12 per cent at £45m, while single premiums from PEPs and unit trusts were up by 217 per cent at £121m.

Japan's banks borrowing at a premium

By William Dawkins in Tokyo

Japanese banks are once more having to pay a premium to borrow in the international interbank market, due to renewed worries about risk in the financial system amid an end-of-year fundraising rush.

Japan's top banks were paying the same or very little more than foreign competitors with similar credit ratings for much of 1996, but the premium has reappeared over the past month, since the closure of Hanwa Bank, a small regional lender unable to collect bad property-related debts.

The leading city banks are now being asked to pay a premium averaging 12.5 basis points, double the premium they were paying before the closure of Hanwa, said dealers in Tokyo. Less strong institutions such as the Long Term Credit Bank of Japan are paying 20 basis points more than competitors and one of the weakest, Nippon Credit Bank, is paying a premium of more than 100 basis points for five-year debentures.

The Hanwa shutdown in late November was the first time in more than 50 years that the finance ministry had ordered a bank to disband. It was interpreted in the capital markets as a warning that the Japanese government was less prepared to guarantee interbank loans to collapsing financial institutions.

"There is a feeling that the finance ministry is backing away from unlimited support. That lesson has not been lost on people," said Mr David Threadgold, financial analyst at BZW Research in Tokyo. The premium is too small to damage the top banks' earnings and will probably recede after the end of the year, when Japan's banks have completed their usual fundraising exercise to tide them over the seasonal holidays, said analysts. Most of their western competitors avoid this rush, because they close their books at the end of December.

However, the higher cost of funds could temporarily deter Japan's top commercial banks from undertaking low-margin business, such as participating in international syndicated loans for high-quality corporate borrowers, said Mr Threadgold.

The premium could also be a profitable opportunity for foreign banks to lend at high rates to the best Japanese institutions, which are fundamentally sound.

Foreign banks made a fortune in this way when Japanese commercial banks were paying a premium of 50-100 basis points over London interbank offered (Libor) rates in late 1995, following the collapse of two banks and Daiwa Bank's surprise $1.1bn bond trading loss.

Lewis 'unlikely' to get C&WC job

By Alan Cane

Mr Duncan Lewis, who quit unexpectedly last week as chief executive of Granada's media business, is unlikely to become a candidate for the top job at Cable and Wireless Communications, the new cable television and telephone group.

Mr Lewis, a former chief executive of Mercury Communications, a principal component of C&WC, has told friends he believes Mr Richard Brown, chief executive of Cable & Wireless, principal shareholder in C&WC, is seeking to appoint a fresh management team and that he has "too much history" with the organisation to return.

Mr Lewis left Granada by mutual agreement after it became clear that he and the group's senior executives had very different approaches to developing the media division. He is on a rolling one-year contract of £250,000 a year, which is expected to be honoured.

Mr Lewis has told friends he was surprised by the conservatism and narrow technological focus of the television business. Mr Lewis has been replaced at Granada media group by Mr Steve Morrison.

● Mr Richard Blackburn has resigned as chairman of Nynex CableComms, the UK's second biggest cable group which with Mercury, Bell Cablemedia and Videotron will form C&WC.

Mr Blackburn was leaving to "pursue other business interests," the company said.

Football club picks executives

By Christopher Price

Manchester United, the Premier League football club, will this week announce a strengthening of its management with the appointment of a new finance director and a company secretary.

Mr David Gill is to leave First Choice, the UK's third biggest tour operator, to join United as finance director. Mr David Beswitherick, who has been handling financial affairs at the club since the departure of Mr Robin Launders in August and had been a candidate for the finance director's job, is rewarded with the company secretary's post. This is currently being undertaken by a non-executive director.

The appointment of Mr Gill, 39, comes a week after the club, which is through to the quarter finals of the lucrative European Cup, was admitted to the FTSE list of the top 250 UK companies on the stock market.

He has spent 12 months as finance director of First Choice and was previously in the same position at Proudfoot, the management consultancy.

A life-long Manchester United supporter, Mr Gill will take up his post in February. His "amicable" departure from First Choice will not involve any compensation on his six-month notice period. His salary at First Choice will not be disclosed until the 1996 report and accounts is published – neither will his remuneration package at his new post.

Mr Launders left to join rival football club Leeds United as chief executive on a salary of £150,000 a year, compared with £123,000 at Manchester United.

NEWS DIGEST

Kenwood likely to win vote

Kenwood, the household appliances maker, is expected today to defeat a resolution calling on the board to put the group up for sale.

The extraordinary general meeting, at the Chartered Accountants Hall in the City this morning, was called by dissident shareholders led by UK Active Value, the investment fund. UKAV said on Friday that it was disappointed Kenwood had "failed to enter talks with Pifco", the much smaller household appliances maker that has expressed interest in a merger.

However, without a firm offer from Pifco, institutional shareholders are expected to back the Kenwood management's plans to revitalise the bottom line, hit by problems at an Italian acquisition.

One institution said anyone making a proper offer for the group had "a genuine chance of succeeding". Mr Ben Thefaut, small companies analyst with Albert E Sharp, said Kenwood would have to listen to any sensible offer from a management team with the relevant international experience.

"In the meantime institutions will sit on their hands and give the Kenwood management a six-month window to put things right."

In a circular to shareholders Kenwood described the dissidents' sale proposal as "misconceived and damaging." *David Blackwell*

Rank to finalise Shearings sale

The Rank Group is expected to announce this week it has finalised the sale of Shearings, its coach holiday business, to a management buy-out for about £80m ($131m).

Shearings' management team, led by Mr John Slatcher, managing director, with backing from NatWest Ventures, has been in exclusive negotiations with Rank since the beginning of November. Mr Angus Crichton-Miller, former managing director of Rank's holidays division, is expected to become a non-executive director.

Rank is expected to report on Thursday good trading from its purpose-built bingo clubs, despite competition from the National Lottery, and improved efficiencies in its video duplication business. *Scheherazade Daneshkhu*

Rugby in £33.2m disposals

Rugby, the building materials group, is to sell its metal products subsidiaries Ward Building Systems and ZND Bouwstaal for £33.2m ($54.4m).

Kingspan, the County Cavan-based building materials group, has conditionally agreed to buy Ward Building Systems for an initial £25.9m cash. Conditional on the purchase will be a 1-for-6 rights issue at 440p to raise about £20.4m fully underwritten by Investment Bank of Ireland and ABN Amro Rothschild.

Bandt makes £15.6m sale

Bandt, which distributes industrial products, is selling most of its Brown & Tawse business to a subsidiary of Wolseley, the builders' merchant, for £15.6m ($25.6m).

Bandt said it would take exceptional charges relating to the disposal of £2.4m for the year to April and a charge of £4.44m in respect of goodwill previously written off to reserves.

Aerodata offers for Scott

Scott Pickford and Aerodata Holdings of Australia have agreed a share exchange which will lead to Aerodata being required to make a 48p per share cash offer for Scott Pickford, valuing it at about £8m ($8m).

Scott Pickford is an Aim-traded geoscience and engineering group, while Aerodata provides survey information and services for oil and mineral exploration.

House that likes to grow its own stars

William Lewis on the distinctive Fidelity style

Almost five years after he joined Fidelity International, the City of London-based fund management house, Mr Simon Roberts will finally become a fund manager on January 1.

Since March 1992, Mr Roberts, 32, has been employed as an analyst at Fidelity International, which controls the non-US interests of Fidelity, the large Boston-based fund management group. Recently, however, he was picked by the company's fund managers to leave his post as director of UK and European research to join them in managing retail and pension fund money.

Mr Roberts's five-year wait epitomises the system run by Fidelity International.

It recruits potential fund managers as analysts and will allow them to manage funds only when the company's senior investment managers believe they are ready to operate their distinctive stock-picking method.

"We try to grow all our managers internally. To be a good investment manager you need to be a good analyst," said Mr Anthony Bolton, who runs Fidelity's Special Situations and European unit trusts.

Over the past three years Fidelity International has built a team of about 50 analysts, representing not only the next line of Fidelity fund managers, but also a main part of efforts to expand the non-US retail and institutional fund management operations.

While the $29bn (£17.6bn) of assets managed by Fidelity International is dwarfed by the approximate $450bn managed by FMR Corp, the US Fidelity group company, strong investment performance in recent years has given it high hopes of achieving substantial growth in funds under management.

"Our key competitive advantage is our research," says Mr Richard Horlick, managing director of Fidelity Institutional Asset Management.

With Fidelity International's ultimate holding company incorporated in Bermuda as a private company, the amount of financial data it has to disclose is limited, making it difficult to assess the cost-effectiveness of the company's attempt at analyst-led growth.

The UK-registered accounts of Fidelity Investment Management, the holding company for several Fidelity International companies, disclose that 718 staff were paid a total of £39m, including social security

FUND MANAGEMENT

costs and pension contributions, during the year to June 30 1996. Pre-tax profits increased from £1.9m to £4.5m on turnover which rose from £85.5m to £96.5m.

In the UK, Fidelity employs a number of star performers – such as Mr Bolton and Ms Sally Walden – to run $6bn of unit trust retail funds. Fidelity says it is also expanding fast in the German retail market.

Nevertheless, it is Fidelity International's institutional investment business which appears to offer the brightest prospects for rapid growth. Funds it manages for institutional clients have doubled in the past year from £1bn to more than £2bn on the back of excellent performance.

Fidelity's balanced fund has seen growth of 15.7 per cent a year over the past five years, against the median of 12.8 per cent. Over the past three years, Fidelity ranked seventh out of 67 other balanced funds, and in the year to September 30 it came fifth out of 69 funds.

The situation contrasts with Fidelity's position at the beginning of the 1990s, when aggressive stock-picking and subsequent volatile returns led to the departure of many of the company's 30 institutional clients.

"We have learnt several lessons from that period and now offer institutional clients a more structured and controlled approach," says Mr Horlick.

Fidelity is also strongly placed to benefit from the predicted growth in Europe of the defined-contribution pensions and specialist cash-fund markets, and pension fund consultants, whose opinions on investment managers influence trustees, are increasingly positive about the company. "Fidelity International was always seen as the poor relation of Fidelity in the US, but that appears to have changed," says Mr Nigel O'Sullivan of Bacon & Woodrow.

However, there are still doubts about how Fidelity's stock-picking style will perform in more difficult equity markets, and some concerns about Fidelity's ability to cope with a large influx of institutional business.

These concerns were heightened by the administrative chaos at Fidelity Brokerage Services earlier this year, prompting the Securities and Futures Authority, the UK stockbroking regulator, to intervene.

Fidelity International stresses the broking business is owned by FMR. But with trustees and their consultants uneasy about investment managers tinged by regulatory difficulties, FMR has appointed Mr Kenneth Rathgeber, formerly chief financial officer and treasurer of Fidelity Investments in the US, as acting president of Fidelity Brokerage Services. He has until the end of January to improve its service and if it fails, it may face disciplinary action, including a fine.

Boeing the boss despite brave faces

McDonnell Douglas obvious junior in planned partnership

While Boeing and McDonnell Douglas appeared as equals to announce their merger yesterday, there was little doubt about who had submitted to whom.

The merged group will be called Boeing. It will have its headquarters in the Boeing company town of Seattle. Mr Philip Condit, Boeing's chief executive, will be chairman and chief executive of the merged company. Mr Harry Stonecipher, McDonnell Douglas' chief executive, will take the more junior positions of president and chief operating officer.

The two companies have been talking about merging for three years. They say they finally did the deal in a few days last week. Whatever McDonnell Douglas' claims yesterday that it was going into this merger with its head held high, its executives were clearly not negotiating from a position of strength.

McDonnell Douglas had suffered several setbacks over the past few months, all of which strengthened suggestions that it could not survive as an independent company.

The first was its decision, announced in October, not to build an aircraft to compete with Boeing's 400-seat 747. This would have involved an extension of the McDonnell Douglas 300-seat MD-11 aircraft. Instead, McDonnell Douglas announced earlier this month that it would become a sub-contractor to Boeing, helping it build 550-seat and extended-range versions of the Boeing 747.

Another substantial blow came last month when the Pentagon announced that the new Joint Strike Fighter aircraft would be built by either Lockheed Martin or Boeing. Mr Stonecipher had described the project as a "must-win" contract.

The future of McDonnell Douglas' civil aircraft business within the merged group, assuming it wins regulatory approval, must now be doubtful. The business has a proud history, going back 76 years to its origins in rented offices at the back of a Los Angeles barber shop. The two sides said yesterday they would continue to market McDonnell Douglas civil aircraft and on developing the 100-seat MD-95.

It is possible that Boeing will sell the MD-95 as its own 100-seater, a category in which it is not represented. But any further aircraft developments will clearly carry the Boeing name.

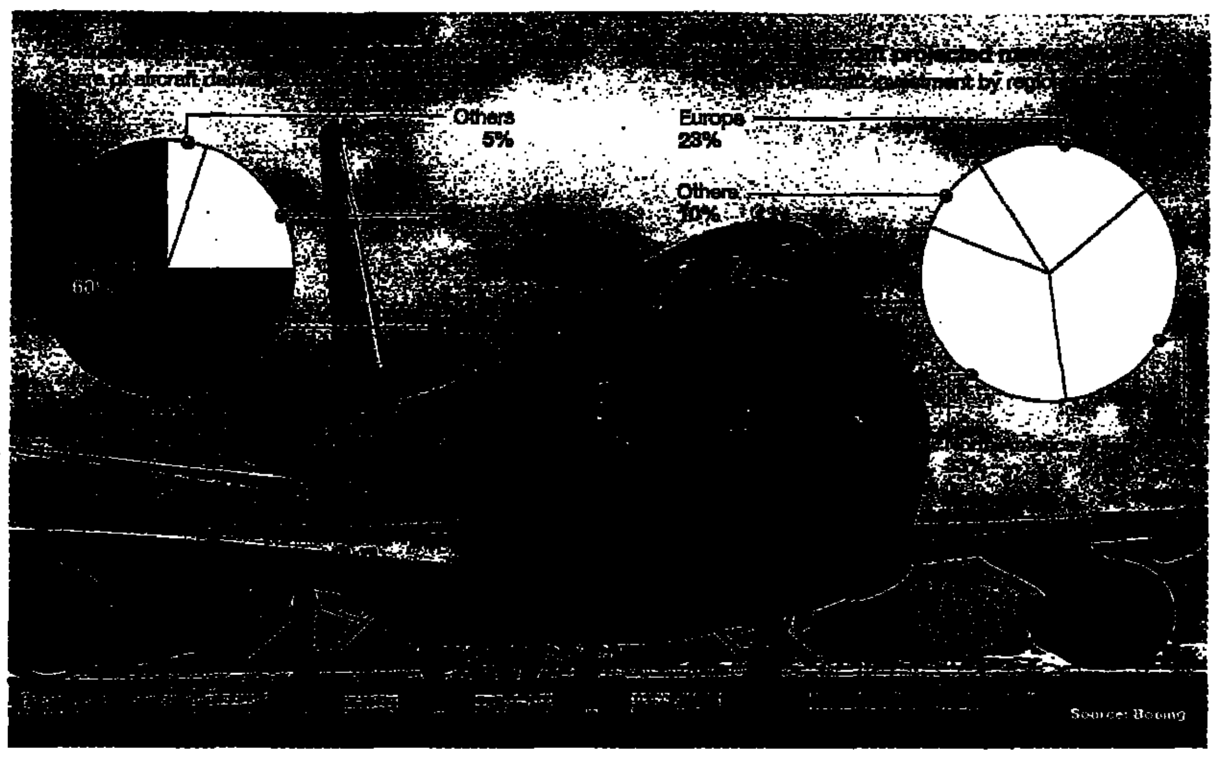
Having captured McDonnell Douglas at a time of relative weakness, the enlarged Boeing will be an overwhelming presence in both the civil and military field. Taking over McDonnell Douglas' small market share in civil aircraft will give Boeing even greater dominance over its closest rival, Airbus Industrie, the European consortium which has about one-third of the world market.

What McDonnell Douglas brings to the merged company is its position as the world's biggest manufacturer of military aircraft, which will help the merged group confront Lockheed Martin, the leading defence contractor in the US. McDonnell Douglas' defence programmes are based on its fighter aircraft, particularly the F/A-18. The US navy has started to take deliveries of around 1,000 new versions of the aircraft that it will purchase over the next 20 years.

For Mr Condit, the Boeing chief executive scheduled to take over as chairman in February from Mr Frank Shrontz, the deal is a coup. He said yesterday it was made easier because current expansion in the aircraft industry meant he was not having to cut staff at the same time as overseeing a merger.

It is an achievement, too, for the US government, which will be relieved that Airbus did not get its hands on McDonnell Douglas' civil aircraft operations. Yesterday's announcement demonstrates how much easier it is for US companies to consolidate than for their European competitors, who are still largely mired in national rivalries.

Michael Skapinker



Proposal sets anti-trust machinery whirring

By Gerard Baker in Washington

Yesterday's announcement of the proposed merger between Boeing and McDonnell Douglas set regulators and lawyers in Washington scurrying to their offices in anticipation of a legal battle.

The proposal will almost certainly require approval from anti-trust regulators before it can proceed, and although the two companies confidently predicted that their merger would not be a "big issue" for the authorities, officials said it was certain to prompt a long look from the regulators.

The first question that needs to be settled is which agency considers the planned merger. Although the anti-trust division of the Justice Department is mainly responsible for the consideration of mergers, the Federal Trade Commission also has strong claims. The two fought a fierce battle over who got to consider the deal between Lockheed and Martin Marietta in 1994. Although Boeing's operations are primarily in the civil field, and McDonnell Douglas' in the military, there seem certain to be areas of overlap that will increase the merged company's market dominance.

Whichever authority wins the battle, the rules for consideration of the merger are the same, laid down in the Hart-Scott-Rodino Act on mergers and competition. Regulators use a formula based on market share, in both geographical and in sectoral terms, to calculate a merger's effect on competition.

The market share in percentage terms of each company involved is squared. If the result is greater than 1800, the rule triggers a full investigation. For example if one company has a 40 per cent share in one sector (40 squared = 1,600) and the other has a 15 per cent share (15 squared = 225), the sum of the squares is 1,825 and there would be an investigation.

Within 30 days of the formal proposal, the regulators must decide whether to grant approval. If they do not, they will issue instructions for the companies, their competitors, government departments and others to submit detailed reports.

Though the in-built bias is always towards rejection of any proposal that reduces competition, there are a number of factors that might permit a merger to proceed:

- Increased efficiencies. If there is specific evidence that the merger would produce significant operating efficiencies which would benefit the consumer in the longer run, it could be permitted to go ahead. This was an important consideration in the Lockheed/Martin Marietta merger, where the Pentagon argued successfully that the economies of merging the two companies would lead to dramatic reductions in defence contract costs for the US taxpayer.
- Barriers to entry. If barriers to entry in an industry are relatively low, the merger might be allowed to proceed on the assumption that the market hegemony of the merged entity would soon be reduced by new companies.
- The "failing company" criterion. If one of the companies is considered incapable of independent survival, the alliance might be permitted. But this rule is usually interpreted narrowly by regulators and the Boeing plan for McDonnell Douglas may not meet it.
- National security. If the Pentagon can make a case that, for example, maintaining security of supply of military equipment dictates a merger should go ahead, the regulators are unlikely to oppose it.

NEWS DIGEST

Linotype-Hell to shed 1,200 jobs

Linotype-Hell, the ailing German manufacturer of pre-press equipment which is being acquired by Heidelberger Druckmaschinen, plans a drastic restructuring which will involve the loss of about 1,200 jobs. It said this year's operating loss would be deeper than expected, at more than DM70m ($45m). Last year, the company incurred a net loss of DM75m and had hoped to reduce this in 1996.

The job cuts will affect one-third of the workforce. Linotype said tough measures were necessary if the remaining 2,000 jobs were to be secured in the long term. To cut costs and move out of the red, the company will streamline its product range around equipment and systems for the graphics industry and concentrate its activities in Kiel. This will mean the closure of its operation at Eschborn, its current headquarters near Frankfurt. Linotype said about 800 of the jobs to be cut would be in Germany. It has been hit by the speed of change in the printing industry as advanced computer systems have led to a high degree of automation, lower costs and intense competition. *Andrew Fisher, Frankfurt*

Skandia steps up bid battle

Skandia, the Swedish insurer, said it would announce tomorrow how it would proceed in its takeover battle with Svenska Handelsbanken, Sweden's largest bank, for Stadshypotek, the mortgage bank. The insurance group stressed its bid remained open and a prospectus would be published next week, as planned. However, the value of Skandia's all-share offer dropped to SKr20.5bn ($3bn) on Friday after its shares fell 2.9 per cent.

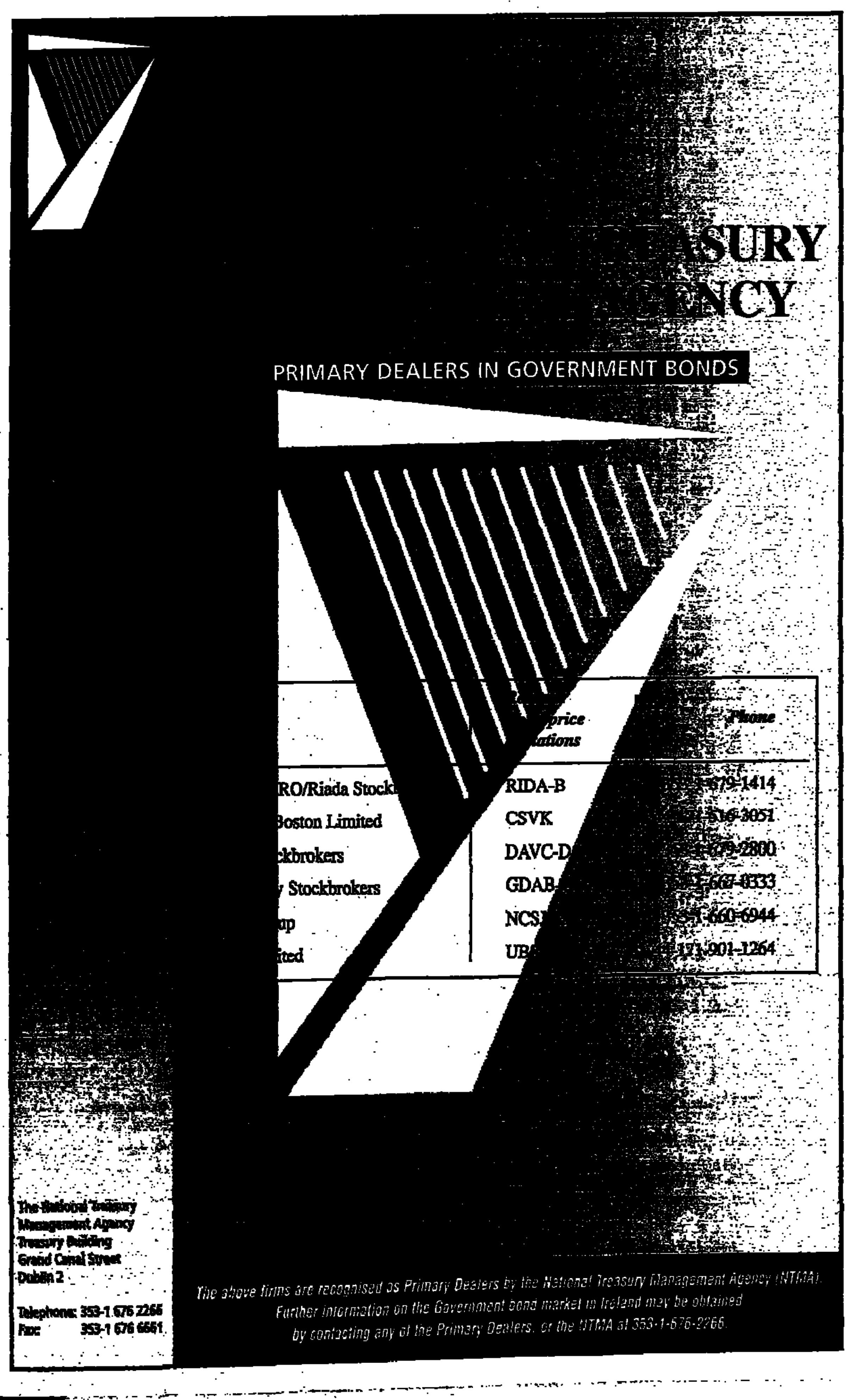
Handelsbanken's SKr22.9bn cash offer has been accepted by the government, Stadshypotek's biggest shareholder with a 34 per cent stake, on condition that no higher bid emerges. Either transaction would create Scandinavia's largest financial services group.

Handelsbanken's most-traded A shares, which surged 3.5 per cent after it announced its bid late on Thursday, eased SKr1.50 to SKr194.5 as investors digested the deal. Meanwhile, Standard & Poor's, the US credit rating agency, said it was considering a possible downgrade of Handelsbanken's long-term creditworthiness. Acquiring Stadshypotek would burden Handelsbanken's balance sheet, reducing its capital cover from 11.7 per cent to 8.5 per cent. Sweden's small shareholders' association, Aktiespararna, said it had no reason to change its previous backing for Skandia's bid before the insurer made its next move. *Greg McIvor, Stockholm*

Olivetti share rule changed

The threshold at which investors must declare share purchases in Olivetti, the troubled Italian information technology company, was lowered at the weekend from 10 per cent of the equity to 4 per cent. The move by the Italian treasury, after consultation with Consob, the stock market watchdog, comes amid speculation about a possible shake-up in the shares of Olivetti, in which Mr Carlo De Benedetti's family has a 15 per cent stake through his Cir holding company.

Consob is anxious to ensure maximum transparency in Olivetti's share trading. A similar move to lower the threshold for informing the stock market from the usual 10 per cent was taken after privatisation of Credito Italiano and Banca Commerciale Italiana, and in the case of Ferruzzi-Montedison, the agrochemicals group. *John Simkins, Milan*



THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**

Abbey National 10⅜% Bd 1998 £531.25
Abbey National Treasury 11% Bd 1999 £110.0
Advent VCT 1.6p
Allied Leisure 0.5p
Ann Street Brewery 6p
Assoc British Ports 10⅝% Bd 2015 £1087.50
Auto Fdg No 2 Class A FRN 2003 £1448.31
Do Class B £1544.25
BAT Int Fin 8⅛% Gtd Bd 2005 £85.0
Barlows 0.75p
Brunswick $0.125
Cadbury Schweppes 8% Cv Bd 2000 $400.0
Chester Asset Rcvbls No 2 Asset Bckd FRN 2001 £1475.27
City Mortgage Rcvbls 1 Mtg Bckd FRN Feb 2023 Ser 1996-2001 £48.69
Do 2 Ser Oct 2023 Ser 1996-2002 £53.49
Do 3 Class A Mtg Bckd FRN Oct 2023 £53.79
Do Class B £82.82
Commerzbank O'seas Fin Gtd FRN 1998 $4004.72
Country Casuals 1.7p
DSL Bank FRN 1998 $4004.72
Dover $0.17
Essex Furniture 1.5p
Export-Import Bank of Japan 8⅛% Gtd Bd 2004 $412.50
Goldsmiths 2.4p
Granada FRN 1999 £1612.62
Guaranteed Export Fin 7⅛% Gtd Nts 1998 £725.0
Halifax Bldg Scty 8⅝% Nts 1999 £83.75
Honeywell $0.27
Hongkong & Shanghai Banking Prim Cap Und FRN (Ser 2) $74.25
Intereurope Technology 2.9p
JBA 1.1p
Japan Dev Bank 6⅞% Gtd bd 1999 $343.75
Lloyds Bank 11⅜% Sb Serial Bd 1998 £1137.50
Do Sb FRN 2004 £32.54
Louisiana Land & Expln $0.06
Merivale Moore 2p
Midland Bank Non-Cm $ Pf Ser A1 $0.355
Do Ser A2 $0.08875
Do Ser B1 $0.41
Do Ser B2 $0.1025
Do 8⅝% Sb Nts Dec 2004 $8468.75
NEC 5.6% Bd 2000 Y560000.0
Nat West Irish Smaller Co's Inv Tst 0.1p
Pendeford Mortgages No 1 Class A1 Mtg Bckd FRN 2037 £1098.02
Do Class A2 £1480.85
Do Class A3 £1490.79
Do Class A4 £1485.77
Do Class A5 £1538.03
Pilot Inv Tst 0.75p
Rugby Gtd FRN Dec 1997 $14926.53
Redland 5.5p
Santander Fin Iss Sb Und VRN $4162.93
Sanwa Australia Fin Gtd Fxd/FRN 2004 $1548.26
Sapporo Breweries FRN 1999 Y4884.0
Sara Lee Uk 9.43% Gtd Bd 2004 £23575.0
Seagram $0.165
Securities Tst of Scotland 1.13p
South Africa 9⅝% Nts Dec 1999 $48.125
Sumitomo Realty 3.8% Nts 2000 Y380000.0
Tanjong M$0.08
Thames Asset Global Sec Class A2 Asset Bckd FRN 2037 £1490.79
Do Class A3 £1500.74
Do Class B £1570.36
Thomson $0.145
Toyo Construction Gtd FRN 1998 $30775.69
Wagon Indl Cv Ptg Pf 3.625p
Wyndeham Press 1.9p
Wynnstay Props 1.65p

■ **TOMORROW**

AIM Distribution Tst 1.8p
Chamberlin & Hill 2.6p
Daiwa Europe Bank 4¼% Nts 1998 Y2125000.0
Ebara 7.2% Bd 1998 Y720000.0
Graystone 0.43p
Japan Airlines 5.7% Bd 2002 Y570000.0
Le Riches Stores 5p
Limited $0.10
MCIT 9p
Do S 2.25p

■ **WEDNESDAY DECEMBER 18**

Do Units 2.25p
Midland Bank Und Prim Cap FRN (Ser 3) $300.55
NEC 5.7% Bd 2002 Y570000.0
Northumbrian Fine Foods 0.05p
Plasmon 0.5p
Regalian Props 0.4p
Speciality Shops 0.8p
Sumitomo Chem 5.6% Bd 1999 Y560000.0
Access Plus 2.49p
Air London Int 14.1p
Aquarius Plus Clird Sec FRN 2000 $281.97
British Gas 6.4p
CSR A$0.12
Finsbury Growth Tst 2.2p
Gardner (L) 4p
Gold Int Fin Tranche A Fxd/FRN 2002 Y5500000.0
Do Tranche B Y305307.0
Hambro Insurance 1.85p
Hankyu 5.85% Bd 2002 Y585000.0
Japan Airlines 8⅛% Gtd Bd 1998 $406.25
Kansai Elec 8⅛% Nts 1996 C$87.50
Lloyds Bank Ser C VRN 1998 £149.49
M & G Recovery Inv Tst 1p
Do Geared Units 1p
Do Package Units 1p
Northern Venture Tst 2.15p
Sanwa Australia Fin Gtd Fxd/FRN 2002 $9500.0
Tokyo Elec 6% Nts 1996 Y60000.0
Yasuda Tst & Banking (Lux) Gtd FRN 2000 $157.50
YTB Fin (Aruba) Gtd Sb Fxd/FRN 2002 $7200.0

■ **THURSDAY DECEMBER 19**

Abbey National Treasury 10⅛% Gtd Nts 1997 L525000.0
Birmingham Midshires Bldg Scty FRN 2000 £147.63
Dickie (James) 3.85p
Dixons Fin 7¾% Gtd Bd 2001 £66.09
Export-Import Bank of Japan 8½% Gtd Bd 1997 C$85.0
Fujitsu 7⅜% Bd 1997 Y737500.0
Granada 7¾% Nts 1996 $775.0
Hitachi Credit 7⅛% Nts 1996 $71.25
Investors Cap Tst Ann Res/Vtg 1.35p
Do Units 1.35p
Mercury Keystone Inv Tst 25p

■ **FRIDAY DECEMBER 20**

Abbey National Treasury FRN 1997 £150.73
Alcan Aluminum $0.15
American Int $0.10
British Smaller Co's VCT 0.85p
Broadgate Inv Tst 2p
Cobham 4.2% 2nd Cm Pf 2.1p
Coventry Bldg Scty FRN 2001 £147.63
DKB Int Fxd/FRN Dec 2004 $31790.71
Daiwa Int Fin (Cayman) 7⅞% Sb Bd 2006 $7875.0
Eksportfinans 6% Nts 1999 C$60.0
Enron $0.225
F & C Eurotrust 1.6p
Gartmore European Inv Tst 1.5p
Gen Motors Acceptance (UK) Nts Mar 2000 £500.0
Govett Oriental Inv Tst 0.2p
Ivory & Sime Enterprise Cap 2.3p
M & G Equity Inv Tst 0.88p
Do Units 0.88p
Morgan Stanley Equity Pf Standard Chartered Ser A 10.858p
Murray Split Cap Tst 3.15p
Do Units 31.5p
NSK 7.05% Bd 2000 Y705000.0
Overseas Inv Tst 2.75p
PowerGen 7.8p
Quintain Estates & Dev 1p
Riverview Rubber Estates M$0.10
Taylor Nelson AGB 0.39p
Tokyo Elec 9⅝% Nts 1996 Ecu96.25
Do 10⅝% Nts 1996 C$106.25
Trinity Care 1.6p
Unilever FL2.23
Unilever 10.29p
Versailles 0.195p

■ **SUNDAY DECEMBER 22**

Newcastle Bldg Scty 10¾% Perm Int £53.75

UK COMPANIES

■ **TODAY**

COMPANY MEETINGS:
Brunel Hldgs, Olympiad Leisure Centre, Monkton Park, Chippenham, Wilts., 11.00
Clyde Blowers, 47, Broad Street, Bridgeton, Glasgow, 11.30
Fleming Japanese Inv Tst, Insurance Hall, 20, Aldermanbury, E.C., 3.30
Govett Strategic Inv Tst, 4, Battle Bridge Lane, S.E., 12.00
Kleinwort Second Endowment Policy Tst, 10, Fenchurch Street, E.C., 12.30
Murray Split Capital Tst, 7, West Nile Street, Glasgow, 2.30
Nursing Home Properties, 6, Broad Street Place, Blomfield Street, E.C., 10.00
BOARD MEETINGS:
Finals:
Barndene Invs
Hill Samuel UK Emerging Cos Inv Tst
Hunters Armley
Interims:
Crest Packaging
Gibbs Mew
Howden Group
Jasmin
MFI Furniture
Prior

■ **TOMORROW**

COMPANY MEETINGS:
Albert Fisher, Royal Lancaster Hotel, Lancaster Terrace, W., 11.00
Biocure Hldgs, Balgowie Technology Centre, Aberdeen, 11.30
Foreign & Colonial Eurotrust, Exchange House, Primrose Street, E.C., 12.15
Lynx Hldgs, Alban Gate, 125, London Wall, E.C., 11.00
Majedie Investments, London Underwriting Centre, 3, Minster Court, Mincing Lane, E.C., 12.15
Moran Hldgs, Merchant Taylors' Hall, 30, Threadneedle Street, E.C., 12.00
Scottish Value Tst, Caledonian Hotel, Edinburgh, 12.00
Schroder Income Growth Tst, 33, Gutter Lane, E.C., 3.00
BOARD MEETINGS:
Finals:
Chemex Intl
Eurotherm
Goldsborough Healthcare
Kunick
Securicor
Vaux Group
Interims:
Baring Emerging Europe Tst
Close Brothers Venture Cap Tst
Hampton Tst
M&G Optimum Income Tst
K.S. Biomedix Hldgs
Mondas

■ **WEDNESDAY DECEMBER 18**

COMPANY MEETINGS:
Albrighton, 135, Alport Street, Cannock, Staffordshire, 11.00
Estates & Agency Hldgs, Institute of Directors, 116, Pall Mall, S.W., 11.00
Finsbury Growth Tst, Chandlers' Hall, Gresham Street, E.C., 12.00
Foreign & Colonial Emerging Mrkts Inv Tst, Exchange House, Primrose Street, E.C., 12.15
Investors Capital Tst, One Charlotte Square, Edinburgh, 12.30.
Morgan Grenfell Equity Income Tst, 23, Great Winchester Street, E.C., 11.00
Trace Computers, 224-232, St John Street, E.C., 4.00
BOARD MEETINGS:
Finals:
Dawson Hldgs
Freepages
Richards
Interims:
Murray Smaller Mkts Tst
Rolfe & Nolan
Zergo Hldgs

■ **THURSDAY DECEMBER 19**

COMPANY MEETINGS:
Broadgate Inv Tst, 99, Charterhouse Street, E.C., 12.30
British Assets Tst, One Charlotte Square, Edinburgh, 12.00
Kwik Save, St David's Park Hotel, St David's Park, Ewloe, Chester, 12.00
Overseas Inv Tst, 23, Great Winchester Street, E.C., 11.30
Smart (J), 28, Cramond Road South, Edinburgh, 12.00
BOARD MEETINGS:
Finals:
Acatos & Hutcheson
Warner Estate Hldgs
Interims:
Asda
Jones & Shipman
Murray Split Capital Tst
NSM
Ptarmigan Intl Capital Tst
Stewart & Wight

■ **FRIDAY DECEMBER 20**

COMPANY MEETINGS:
Foreign & Colonial Special Utilities Inv Tst, Exchange House, Primrose Street, E.C., 2.30
Lowland Investment, 3, Finsbury Avenue, E.C., 2.30
UK Estates, St Ann's House, Ann's Place, Manchester, 9.00
BOARD MEETINGS:
Finals:
Kelsey Industries
Interims:
Electric & General
Forminster
Meconic

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.
This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent annoucements.

FINANCIAL TIMES

MARKETS

THIS WEEK

Global Investor / Peter Martin

Emu and the dollar hegemony

The increasingly political debate over European monetary union, much in evidence at the Dublin summit, often revolves around the need for a powerful European currency to counterbalance "dollar hegemony".

The economic content of this notion is dubious, but the chart shows one area in which dollar hegemony undoubtedly holds sway: the extent to which European financial markets follow the lead of those on the other side of the Atlantic.

This year, for example, European equity markets have tracked their US equivalents with striking faithfulness. The only exceptions have come during those brief moments when American animal spirits have been most exaggerated, such as during the summer high-tech rally and, arguably, in recent weeks. The commonality of trend is particularly marked when you consider that the US and continental Europe are at quite different stages of the economic cycle.

A similar pattern is evident in the bond market: though long-term interest rates are more susceptible to domestic forces, there is none the less a global dollar interest rate set by the US.

Why are the rest of the world's financial markets so influenced by their dollar counterparts? The answer lies, as often in economics, in the decisive role of the marginal participant - in this case, by the marginal lender or investor. In integrated global capital markets, the question is not the nationality of the marginal participant, but his or her preferences. Thus, in today's circumstances what counts is not that the marginal lenders are Japanese financial institutions, but their desire to place money in the US bond market.

This desire is only partly due to the role of the dollar as the premier international currency. Much more important are a clutch of self-reinforcing factors. In equities, these include the transparency of US markets and accounting practices, and the overriding priority, in law and in corporate practice, of shareholders' interests. In the case of the bond market, they include the relatively independent and predictable nature of the policies of the Federal Reserve and the liquidity advantages of the dollar bond markets.

Still, if the US lead vanishes when Emu creates a rival currency area of comparable scale, how will that affect investors?

First, decoupling of European markets from the US would require unlearning many traditional rules of thumb. The daily rhythm in London, for example, in which the equity market often marks time mid-morning, waiting for New York to open, might be replaced by an earlier bias, when continental exchanges conduct most of their business.

More significant, is that if euro-denominated securities became more influential, they might attract a greater flow of discretionary funds from abroad, leading to a general rerating of these markets.

So, will this change indeed take place?

Some of the US markets' advantages will not be at all affected by Emu. Transparency has been improving for decades in European market for reasons unrelated to the move towards a single currency. A similar trend holds good in corporate behaviour.

Emu will, however, allow participants to acquire other US advantages, particularly those affecting the bond market. How far it achieves them is within Europe's control. If the European Central Bank operates as Germany wishes, there is a good chance that monetary policy will acquire the same independence and relative predictability as is today provided by the Fed - and the Bundesbank.

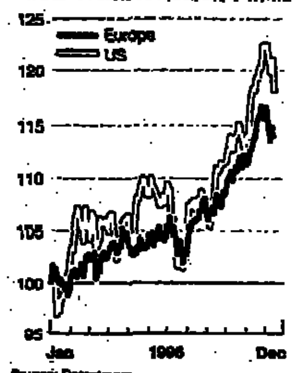
The French desire for a political influence on euro-area policy, however defensible from the point of view of national sovereignty, would undoubtedly limit these attractions from an investor's point of view.

Most significant, however, in determining the primacy of the US bond market is the liquidity factor. Here Europe starts with a significant disadvantage. Its government bond markets are fragmented by widely differing conventions, and by the relatively small size of individual issues. There is as yet little sign of any steps being taken to rectify this: Germany has not yet nerved itself up to redenominate existing issues of government debt, for example. Trivial issues, such as a preference for fractions or decimals in bond prices, continue to divide the markets.

An end to "dollar hegemony" requires more sweeping changes than most of Europe's companies and markets have yet contemplated. Until such a transformation takes place, European traders will continue to wait for the New York opening.

US and European equities

FT/S&P-A Indices rebased, $ terms



Source: Datastream

Total return in local currency to 12/12/96

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.10	0.00	0.06	0.06	0.15	0.11
Month	0.45	0.04	0.26	0.28	0.66	0.52
Year	5.56	0.52	3.61	5.56	10.50	6.32
Bonds 3-5 year						
Week	-0.46	-0.27	0.02	-0.15	-0.67	-0.09
Month	-0.10	1.02	0.39	0.86	0.77	0.21
Year	4.23	3.05	6.93	11.42	22.77	5.87
Bonds 7-10 year						
Week	-0.99	-1.04	-0.69	-0.52	-1.07	-0.63
Month	-0.84	1.91	0.15	0.89	1.43	0.24
Year	2.32	6.01	7.96	14.49	33.98	6.47
Equities						
Week	-1.9	-2.8	-2.1	-2.6	-3.7	-1.4
Month	0.2	-3.9	3.8	0.0	-0.7	1.6
Year	20.3	-0.3	24.8	27.0	9.7	13.9

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Extel Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co. and Standard & Poor's.

INTERNATIONAL EQUITIES / [illegible]

Middle East attracts investors

The success of last week's capital increase by Banque Libanaise pour le Commerce, Lebanon's 13th largest bank, highlighted investors' rising appetite for instruments from the Middle East and North Africa.

BLC raised a total $60m in new equity – $20m of ordinary shares quoted on the Beirut stock exchange and $40m of Luxembourg-listed Global Depositary Receipts.

Investor orders totalling 3.5 times the amount on offer, a record for a Lebanese issue, allowed the lead managers – Nomura acting as global co-ordinator and Middle East Capital Group, a recently established local investment bank, as lead manager of the local tranche – to price the GDRs at $11.8 per share, near the top of the announced range of $10 to $12. The domestic shares were offered at $11.2.

"BLC is not a particularly dynamic or profitable bank," a Lebanese analyst said, "but it has foreign subsidiaries [in France and the United Arab Emirates], which gives it greater stability than other [Lebanese] banks."

Only 14 months ago, not a single equity issue from the region was listed on a foreign exchange. Now, there are six depositary receipts listed on European and US exchanges – three Lebanese, two Egyptian and one Moroccan.

Although half the existing issues were launched by Lebanese companies, most analysts do not expect a repeat of this performance in 1997. This is partly due to the poor performance of Lebanese GDRs in the secondary market.

The price of Banque Audi's pioneering deal has barely moved since it was launched late in 1995, while last month's GDR issue by Solidere, the company entrusted with rebuilding the commercial centre of Beirut, is still hovering around its launch price. Economists also point out that Lebanon's economic outlook is not favourable.

"The Lebanese market's performance is largely dependent on the country's economic activity", said Mr Walid Kabe, executive director at Medinvest Associates, a London-based consultancy specialising in the region. "And the economy is linked to the geo-political situation, notably the peace process [which is not progressing]."

On the other side of the equation, analysts predict continuing – or even rising – demand from investors looking for higher returns than those available on more developed markets.

"More issues should come to the market next year," predicted Ms Suha Najjar, a Middle East analyst at Nomura Research, "mostly GDRs by Egyptian companies".

However, rumours of a possible Moroccan deal are also circulating in the market. "A lot of Egyptian state monopolies, in the steel and aluminium sectors as well as tobacco and chemicals companies, are due to be privatised, but are too big for the local market to absorb", she added.

Ms Najjar also expects Egyptian GDRs to perform well on the secondary market. "Not only on the back of earnings growth, but because of the increased liquidity as the market develops further."

● BHW Holding, the building society for German civil servants, has chosen Deutsche Morgan Grenfell, Dresdner Kleinwort Benson and Credit Suisse First Boston as joint global co-ordinators of its stock market listing, planned for next year.

COMPANY RESULTS DUE

Rise of 13% to £156m looked for at Asda

■ Asda's half-year results on Thursday are expected to show the UK's fourth biggest supermarket group raising pre-tax profits some 13 per cent to £156m (£138.3m).

The results will be the first presided over by Mr Archie Norman as chairman. He moved from the chief executive's post in September shortly before being selected as a prospective Conservative candidate. He was succeeded by his deputy, Mr Allan Leighton.

Analysts will look for improvements in like-for-like sales and of margins in petrol retailing.

■ MFI, the furniture retail group, reports interims today. Analysts are forecasting a 70 per cent jump in pre-tax profits to about £34m (£20.1m) for the first half, and £88m (£58.1m) for the full year. MFI's main trading months are January and February. Analysts are looking for signs of recovery in gross margins, and details of how the Homeworks reformatting programme has improved stores.

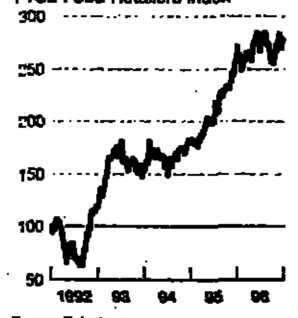
■ Eurotherm, the industrial controls manufacturer, is expected to report increased full-year profits of £38m-£40m tomorrow, following increased demand for its variable speed drives. The dividend is forecast to rise from 7.5p to 9p.

The results announcement will be the first formal statement from the company since the summer's boardroom upheaval, in which Mr Claes Hultman was ousted and then reinstated as chief executive, following a row with Mr Jack Leonard, the group's founder and former chairman.

■ Securicor, the security group, announces full-year results tomorrow. Brokers are forecasting pre-tax profits of £108m. The market will be mainly interested in the performance of Cellnet, its joint venture with BT, which contributes about two-thirds of Securicor's operating profit. Analysts say Securicor will sell its 40 per cent holding to BT, which owns the remainder, when timing and price are right.

Asda

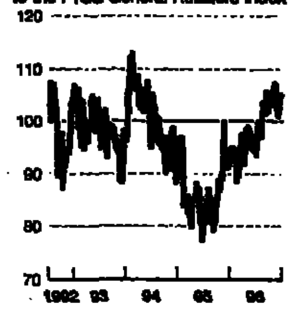
Share price relative to the FTSE Food Retailers Index



Source: Datastream

MFI

Share price since flotation relative to the FTSE General Retailers Index



Source: Datastream

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY DECEMBER 13 1996 US Dollar Index	%chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	THURSDAY DECEMBER 12 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (77)	211.11	11.1	188.76	151.90	169.74	176.89	4.1	4.31	213.00	190.48	152.82	170.97	178.89	224.61	187.53	191.86
Austria (24)	185.37	6.2	165.75	133.38	149.05	148.97	14.8	1.92	187.36	167.53	134.25	150.38	150.31	195.04	168.36	171.58
Belgium (27)	221.31	5.8	197.88	159.24	177.95	178.83	14.5	3.84	223.52	199.86	160.16	179.41	175.46	229.11	203.64	204.55
Brazil (28)	180.03	30.5	160.97	129.54	144.75	344.24	39.5	1.78	179.83	160.80	128.86	144.34	343.14	189.70	131.21	141.01
Canada (116)	183.76	23.8	164.31	132.22	147.75	181.10	23.5	2.00	184.60	165.06	132.27	148.17	181.44	196.24	144.35	148.95
Denmark (30)	334.25	15.8	298.87	240.51	268.76	268.92	23.6	1.71	337.85	301.91	241.93	271.01	271.47	340.41	281.10	285.08
Finland (24)	234.95	25.6	210.08	169.05	188.91	228.00	33.7	2.20	240.15	214.73	172.07	192.76	232.79	244.11	171.73	206.32
France (93)	204.12	13.8	182.51	146.87	164.12	167.19	21.5	2.92	204.73	183.06	146.69	164.33	167.74	212.49	171.33	171.33
Germany (59)	183.73	12.2	164.28	132.20	147.73	147.73	21.3	1.64	187.13	167.32	134.08	150.20	150.20	189.86	161.25	162.20
Hong Kong (58)	486.44	25.5	434.95	350.01	391.12	483.35	25.6	3.22	497.11	444.48	356.19	399.00	493.69	513.18	372.58	379.50
Indonesia (27)	222.65	–	199.08	160.20	179.02	321.39	–	1.61	224.19	200.46	160.64	179.95	323.57	–	–	–
Ireland (16)	310.29	21.4	277.44	223.26	249.49	263.29	17.2	3.48	312.80	279.69	224.13	251.07	265.07	321.14	250.17	252.81
Italy (58)	79.11	7.3	70.74	56.92	63.61	90.24	3.3	2.30	79.28	70.89	56.81	63.64	90.47	84.53	69.68	70.05
Japan (480)	133.80	-13.6	119.64	96.28	107.59	96.28	-4.7	0.80	135.23	120.91	96.89	108.54	96.89	164.68	133.80	152.23
Malaysia (107)	581.94	19.9	520.33	418.72	467.91	565.57	19.2	1.10	588.99	526.64	422.03	472.75	572.25	607.65	477.30	480.81
Mexico (27)	1153.32	11.3	1031.23	829.85	927.33	9992.01	14.5	1.10	1169.48	1045.69	837.97	938.69	10112.23	1325.65	938.49	950.38
Netherland (18)	313.78	15.1	280.56	225.77	252.29	248.51	24.5	2.87	316.60	283.08	226.85	254.12	250.22	328.12	265.24	266.14
New Zealand (15)	91.25	-14.8	81.59	65.66	73.37	69.03	6.7	3.99	91.44	81.76	65.52	73.39	69.43	94.40	75.94	78.85
Norway (35)	279.39	20.8	249.81	201.03	224.64	245.61	23.8	2.05	282.24	252.36	202.23	226.54	247.70	286.15	222.24	227.35
Philippines (22)	200.54	–	179.31	144.29	161.24	262.79	–	0.83	201.07	179.78	144.07	161.39	263.48	–	–	–
Singapore (43)	409.00	0.4	365.71	294.29	328.86	263.74	-0.8	1.02	411.87	368.27	295.12	330.59	265.53	465.21	371.28	391.88
South Africa (44)	306.12	-20.6	273.72	220.26	246.14	316.71	3.2	2.48	311.13	278.19	222.93	249.73	323.53	437.76	306.12	389.73
Spain (37)	198.92	20.4	177.86	143.13	159.94	196.11	29.2	3.06	199.62	178.48	143.03	160.22	196.63	202.22	158.03	158.03
Sweden (48)	404.19	29.5	361.41	290.83	324.99	407.45	33.1	2.09	408.38	365.15	292.62	327.79	411.71	416.67	294.19	304.47
Switzerland (37)	237.38	0.6	212.25	170.80	190.86	193.65	15.0	1.53	238.92	213.63	171.20	191.77	194.56	254.34	219.29	228.29
Thailand (45)	107.28	-36.2	95.92	77.19	86.26	106.45	-35.3	3.22	107.94	96.52	77.35	86.64	107.12	193.95	107.28	162.56
United Kingdom (213)	264.87	14.9	236.83	190.58	212.97	236.83	7.6	4.01	266.07	237.90	190.64	213.56	237.90	273.93	222.43	225.46
USA (623)	296.59	18.1	265.20	213.41	238.48	296.59	18.1	2.02	296.99	265.55	212.80	238.38	296.99	307.82	243.34	253.50
Americas (794)	271.00	18.4	242.31	194.99	217.90	227.97	18.4	2.01	271.42	242.69	194.48	217.86	228.29	281.50	222.53	230.78
Europe (720)	227.46	13.2	203.39	163.67	182.89	196.33	15.6	2.95	229.15	204.89	164.19	183.93	197.86	234.56	194.31	196.82
Nordic (137)	346.57	25.7	309.89	249.37	278.66	304.84	30.4	2.05	350.71	313.58	251.29	281.50	308.37	355.51	261.13	274.52
Pacific Basin (875)	151.45	-8.3	135.42	108.97	121.77	109.97	-1.3	1.28	153.17	136.96	109.75	122.94	110.87	177.01	151.45	162.51
Euro-Pacific (1595)	183.02	1.7	163.65	131.69	147.16	142.54	6.7	2.15	184.73	165.18	132.36	148.27	143.60	191.51	175.04	176.26
North America (739)	289.78	18.3	259.11	208.51	233.00	288.99	18.3	2.02	290.22	259.49	207.95	232.94	289.38	301.15	237.55	246.83
Europe Ex. UK (507)	202.63	12.3	181.18	145.80	162.93	171.57	20.4	2.32	204.48	182.84	146.52	164.13	172.96	209.70	174.81	176.58
Pacific Ex. Japan (395)	303.99	14.9	271.81	218.73	244.43	262.40	12.6	2.84	308.19	275.57	220.83	247.37	266.07	317.82	257.81	261.40
World Ex. US (1810)	184.86	2.2	165.29	133.01	148.64	147.64	7.5	2.14	186.56	166.81	133.67	149.74	148.73	193.47	176.03	177.33
World Ex. UK (2220)	215.76	8.1	192.92	155.25	173.48	185.72	12.4	1.87	217.01	194.04	155.50	174.19	186.60	224.89	196.13	198.32
World Ex. Japan (1953)	265.21	16.8	237.13	190.82	213.24	250.30	16.9	2.39	266.41	238.21	190.89	213.83	251.38	274.88	224.52	226.04
The World Index (2433)	219.97	8.7	196.68	158.27	176.87	190.42	11.9	2.09	221.22	197.80	158.51	177.58	191.32	228.97	198.47	200.73

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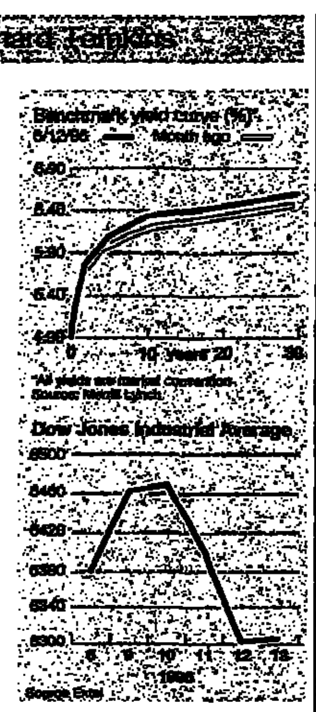
MARKETS: This Week

NEW YORK



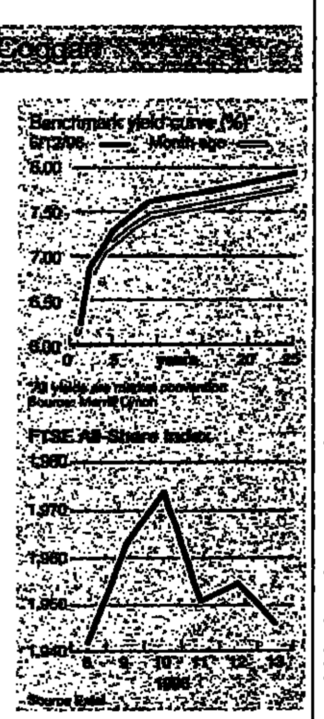
Barring unforeseen upsets, this week looks set to be a quiet one in US markets as investors and traders close their books in readiness for Christmas and the year-end.

The main focus of the week will be tomorrow's meeting of the Federal Reserve's Open Market Committee, but few believe it will produce any change in monetary policy. Most key economic indicators continue to suggest a gradual slowdown in economic activity and a decelerating inflation trend, so there are no obvious pressures for the Fed to alter interest rates.

However, as Ms Abby Cohen of Goldman Sachs points out, December can sometimes be a "weird" one in the markets: first, because of year-end portfolio adjustments, often driven by tax-related or window-dressing concerns; and second, because of increased futures activity and heightened volatility. This year, additional factors include November's unusually large price gains and Mr Alan Greenspan's reminder that Fed policy-makers monitor the state of financial markets.

Auctions of two-year and five-year notes are scheduled for Wednesday and Thursday, so the market will know of the Fed's decision on monetary policy before the bidding opens on the last of the coupon supply for 1996. And the week is not without the usual batch of economic data: figures for industrial production and capacity use are due today, and those for housing starts, tomorrow. On Friday, figures for third-quarter gross domestic product are expected to confirm that growth slowed to 2 per cent from the robust 4.7 per cent in the second quarter.

LONDON



Normally, at this time of the year, City traders are looking to wind down ahead of Christmas and enjoy the office parties. December often sees a year-end rally in the stock market.

But the turbulence seen on world bourses since Mr Alan Greenspan, *chairman of the Federal Reserve*, referred to "irrational exuberance" in stock and asset markets, means that dealers will be keeping one eye on the screens while they wolf down their mince pies.

The FTSE 100 index lost touch with the 4,000 level last week, with investors looking for excuses to take profits.

The future was leading the cash market on Thursday and Friday, often trading at a discount.

International events are more likely to lead the way than domestic news. Results are thin on the ground next week, with Asda and Securicor the companies most likely to interest investors.

A big bid would cheer up the market; however, there has been lots of speculation but few deals in recent months.

The chancellor decided to leave base rates unchanged after his monthly meeting with the governor; the wisdom of that decision will be tested this week by figures on retail sales, unemployment, average earnings and M4 money supply growth.

Most analysts are still looking for rates to rise in the new year. Gilt investors will be looking at tomorrow's public sector borrowing requirement numbers to see if the chancellor is on target for his deficit forecasts.

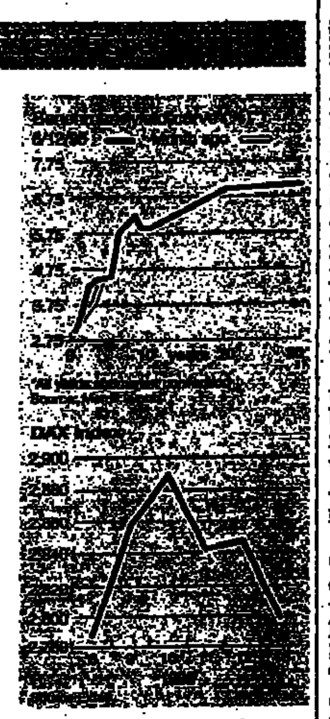
Wall Street, however, will continue to be the main focus of attention.

FRANKFURT

As German financial markets continue to sway in the wake of the unsettling remarks of Mr Alan Greenspan, head of the US Federal Reserve, attention will also be focused this week on the Bundesbank. At its final pre-Christmas *meeting on Thursday, it will* answer two questions: what will the money supply target be for 1997 and will it look ahead to European monetary union by setting a range which also includes 1998?

This year's M3 target of 4 –7 per cent has been overshot, with the November figure – due this week – again expected to show a growth rate of some 8 per cent with the impact of the Deutsche Telekom share issue on fund flows.

Some economists have argued for a slightly lower 1997 target range, with DG Bank opting for 3–6 per cent. Mr Michael Heise, its chief economist, says this would allow for slower growth, of 2 per cent, in production capacity and reduced inflation of around 1.5 per cent. On the question of a two-year M3 target, he said this was impractical ahead of Emu. However, Mr Holger Fahrinkrug at UBS said an extended target "has certain attractions". It would avoid the need to set a 1998 target next December, just ahead of



the decision on which countries will join Emu, and thus forestall excessive attention by the financial markets at a politically sensitive time.

Mr Hermann Remsperger, chief economist at BHF-bank, said a two-year target would set an early stability signal ahead of Emu. "The credibility of the European central bank will depend not least on the monetary policies followed by [national] central banks in 1997 and 1998."

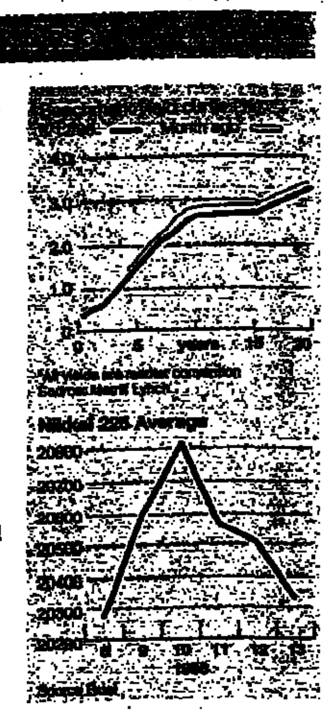
TOKYO

Markets are likely to remain weak in the short term, following an anaemic recovery from the Greenspan scare which left the Nikkei 225 average at 20,341.39 last Friday – up just 64.69 points, or 0.32 per cent, from the previous week's finish, when the index lost 1 per cent.

Some analysts point to today's scheduled allocation by pension funds of fresh money to fund managers, which takes place every June and December, as a potential bull factor.

In addition, Japan's second over-the-counter market will come into being this week with ATL Systems, a high-technology venture business, to be traded from Tuesday. A second high-tech company will register its stock for second-market trading later this month. Official regulations were eased in July to enable the creation of the market, to help venture businesses raise funds.

The equity market is likely to keep a close watch on Wall Street, particularly as US and other foreign investors have increased their influence in Tokyo as domestic individual and some institutional investors have turned away from stocks. Some analysts believe foreign investors will



step up buying in a year-end pattern seen in recent years. Non-resident investors now account for more than 10 per cent of the total market capitalisation and around 20 per cent of daily turnover, according to Nikko Securities.

Bond markets, meanwhile, will seek further confirmation of continued easy monetary policy from a mid-week news conference by Mr Yasuo Matsushita, governor of the Bank of Japan.

COMMODITIES By Kenneth Gooding

De Beers sees record sales

De Beers of South Africa, which organises the international diamond producers cartel through its London-based Central Selling Organisation (CSO), is certain to report record sales for 1996 on Wednesday.

In other years this would be some cause for rejoicing in the world's diamond cutting centres. But the results will be overshadowed by many uncertainties that are causing nervousness throughout the industry. Not the least of these is the fact that De Beers still has not signed a new marketing contract with Russia, one of the world's biggest producers.

As for the 1996 figures, the Diamantaire newsletter calculates that CSO sales of rough or uncut diamonds reached \$4.75bn, well ahead of the previous record of \$4.53bn set last year. The newsletter cautions, however, that its forecasts sometimes underestimate CSO sales outside its 10 "sights" – when boxes of diamonds are sold to privileged diamond cutters – and the total might be as high as \$4.9bn.

Meanwhile, De Beers' attempts to work out a new marketing contract with Almazy Rossii Sakha, Russia's biggest diamond producer, have been bogged down by internal politics. Some observers suggest that Mr Viktor Chernomyrdin, the Russian prime minister, will not make a decision about the contract until this month's presidential elections in the Sakha republic, where ARS is based.

Mr Bobby Craig and Mr Gavin van der Wath, analysts at the Merrill Lynch financial services group, express a widely-held opinion when they say: "We remain confident that the two major parties do not have to be reminded that the diamond industry will take a very long time to recover if confidence is destroyed. For this reason alone we believe that a new agreement will be reached, even if it turns out to be an informal agreement. An informal agreement can be more positive for the industry than a formal agreement, which is abused."

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Hoechst (Germany)	Roussel-Uclaf (France)	Chemicals	\$3.22bn	Buying out minorities
Clariant (Switz)	Unit of Hoechst (Germany)	Chemicals	\$1.75bn-\$1.85bn	Makes sector's biggest
CalEnergy (US)	Northern Electric (UK)	Power	\$1.28bn	Bid raised
Investor Group (Int'l)	YPFB (Bolivia)	Oil & gas	\$835m	Bolivia "capitalises" oil
Swiss Re (Switz)	Unionias (Italy)	Reinsurance	\$383m	Consolidation
BBA Group (UK)	International Airmotive (US)	Aerospace	\$289m	Doubling maintenance
Nestlé (Switz)	Unit of Ault Foods (Canada)	Food	\$164m	Ice cream move
Hicking Pentecost (UK)	Belding Thread (US)	Industrial thread	\$54.9m	Strategic buy
Morgan Stanley (US)	Unit of Barclays (UK)	Financial servs	n/a	Consolidation

OTHER MARKETS

After a week of excited and mostly downward trading which brought second thoughts on the durability of equities' bull run sharply into focus, leading bourses look set for an uncertain run-up to Christmas.

PARIS

Share prices took a clear pasting last week in spite of a resurgence of corporate activity. The leading CAC 40 index closed on Friday more than 6 per cent short of its early December peak, and the consensus among brokers was that the market was most likely to stay weak over the next few days.

It is an uncertain time for sentiment. Global securities and currency markets are suddenly more volatile, and in recent weeks the political strains within France have cast a deep shadow over the market's mood. This latter found little relief in last *week's televised presidential* address.

Mr Jacques Chirac backed Mr Alain Juppé, his prime minister, but demanded greater transparency on government policies. "For the time being, the status quo is maintained. But a government reshuffle, possibly early next year, cannot be entirely ruled out", said one broker.

Corporate activity remains upbeat. There was a bid for the Roussal Uclaf minority from parent Hoechst of Germany; Carrefour sent quivers of excitement through the retail sectors by buying 33 per cent of supermarkets chain GMB; and Bouygues linked up with Saint Gobain.

Friday is the big day this week. Moulinex puts out interims and Rhône-Poulenc holds an analysts meeting. It is also a big day for eco*nomic data with November* housing starts, industrial production and manufacturing output (both October) and final November inflation all due.

LVMH meets analysts today and catering group Sodexho is expected to produce annual results tomorrow.

HONG KONG

Brokers are looking for a quieter week on the Hong Kong stock market as the Christmas holiday begins, *writes Louise Lucas in Hong Kong*. However, if the HK\$10.10bn turnover of Friday is unlikely to be repeated, analysts reckon there is scope for prices to trade higher in the run-up to the new year.

Investors will be keeping an eye on New York, with Wall Street likely to dictate the direction of trading. The property sector, which led the 270-point fall on Friday, is expected to remain weak on concerns that either the government or banks will act to temper spiralling prices. Properties are also interest rate sensitive, so any indication of a rise in rates in the US – which would feed through to Hong Kong via the currency peg – will also dampen sentiment.

While volatility will remain a hallmark of equities trading, brokers are looking for China to outperform the index.

STOCKHOLM

There was betting on Friday that the Riksbank could trim its repo rate tomorrow, possibly by 25 basis points. The central bank puts out its quarterly inflation report on the same day.

Drugs group Astra, a strong performer recently as a result of rumours of a bid from Swiss giant Roche, makes an R&D presentation today. Otherwise, there is little doubt that the financial sectors will stay in the limelight with last week's bid for mortgage bank Stadshypotek from Handelsbanken continuing to fuel takeover talk.

ZURICH

Clariant's upsurge following its merger with the speciality chemicals side of Hoechst of Germany renewed interest in a Swiss market which at this time of the year traditionally winds down for the Christmas break.

CURRENCIES

Traders put FOMC meeting under scrutiny

Tomorrow's meeting of the Federal Reserve's policy-making Open Market Committee has become an event to look out for since traders decided that Mr Alan Greenspan, Fed chairman, might seek an interest rate hike.

On December 5 Mr Greenspan warned of the risk of "irrational exuberance" affecting asset prices.

Inflation might be modest in the real economy, was his message, but it can spill over from the asset markets.

A US rate rise could shake the currency market out of its pre-Christmas torpor. However, currency strategists disagree whether a rate hike would boost the dollar or – because it would hit the asset markets – weaken it. Most strategists expect the FOMC to leave rates static.

The US economy is often said to be growing in a "Goldilocks" fashion: neither hot enough to spark inflation, nor so cold that it needs additional stimulus.

More clues as to whether this belief is true will emerge this week.

Today, US November industrial production data should rebound from October's fall.

On Thursday, international trade figures for October should show a slight narrowing in the trade gap – a focus of renewed interest as US motor vehicle makers complain that the dollar's strength against the yen is hurting exports. Also on Thursday, the Philadelphia Fed's December survey appears.

In Europe, analysts will be looking at the implications of Friday's European Union stability pact agreed at the leaders summit in Dublin.

The UK publishes an array of real economy data this week, with retail sales, unemployment and M4 money supply figures particularly important.

The Riksbank is expected to cut the Swedish repo rate again tomorrow.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, December 13, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US \$	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7875.97	4750.00	3071.25	4172.89
Albania	(Lek)	169.209	102.050	65.9835	89.6512
Algeria	(Dinar)	94.5883	57.0450	36.8841	50.1142
Andorra	(French Fr)	8.6581	5.2217	3.3762	4.5873
	(Sp Peseta)	215.777	130.135	84.1426	114.324
Angola	(Readj Kwanza)(1)	360754.4	217571.0	140677.0	191136.8
Antigua	(E Carib \$)	4.4769	2.7000	1.7458	2.3720
Argentina	(Peso)	1.6573	0.9995	0.6463	0.8781
[illegible]					

		£ STG	US \$	D-MARK	YEN (X 100)
Greece	(Drachma)	405.339	244.460	158.063	214.759
Greenland	(Danish Krone)	9.8085	5.9155	3.8248	5.1968
Grenada	(E Carib \$)	4.4769	2.7000	1.7458	2.3720
Guadaloupe	(Local Fr)	8.6581	5.2217	3.3762	4.5873
Guam	(US \$)	1.6581	1	0.6466	0.8785
Guatemala	(Quetzal)	9.9591	6.0063	3.8836	5.2766
Guinea	(Fr)	1658.10	1000.00	646.580	878.503
Guinea-Bissau	(Peso)	38828.4	23418.0	15141.6	20572.8
[illegible]					

		£ STG	US \$	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)(3)	66.4585	40.0799	25.9148	35.2103
Panama	(Balboa)	1.6581	1	0.6466	0.8785
Papua New Guinea	(Kina)	2.2212	1.3396	0.8662	1.1768
Paraguay	(Guarani)	3490.30	2105.00	1361.05	1849.25
Peru	(New Sol)	4.2812	2.5820	1.6695	2.2683
Philippines	(Peso)	43.5998	26.2950	17.0018	23.1002
Pitcairn Is	(£ Sterling)	1	0.6031	0.3900	0.5298
	(NZ \$)	2.3621	1.4246	0.9211	1.2515
[illegible]					

Abbreviations: [illegible]

ATHENS STOCK EXCHANGE Dec 9th - Dec 13th 1996 — GREECE

				GDP (USD bn) 96e	119.96
ASE INDEX	905.86	P/E (after tax) 96e/95	11.8/12.3	Per Capita Income (USD)	11,485
%Chg (2/1/96)	0.24	EPS GROWTH (%) 96e	12.2	Inflation Rate (% Y.O.Y, November '96)	7.70
Yearly High	1026.02	P/E 96e/EPS GROWTH (%)96e	0.95	November 12 M T-Bill rate (%)	11.50
Yearly Low	870.86	P/CE 96e/95	9.6/10.1	1-Month Athibor (%)	13.04
WEEKLY VOL. (USD m)	98.92	P/BV 96e/95	2.4/2.8	GRD/US\$	243.87
%Chg (Prev. Wk)	-71.44	Div. Yield (%) 96e/95	5.6/5.3		
1 Y Wk Avg. (USD m)	159.63			A.S.E. Market Capitalisation - 13/12/96 (USD bn)	23.94
				IPOs & Rights Issues (in USD m) Jan 1 '96-Dec 13 '96	552.62

MARKETS: This Week

INTERNATIONAL BONDS By Richard Lapper

Japanese retail poised to join overseas drive

It is a measure of their renewed importance that mere rumours of sales by Japanese institutional investors could have the kind of impact they had in the markets last week, with US equity and bond prices falling sharply on Wednesday. Yet the markets will have to become used to the Japan factor. Not only are Japanese life insurance and trust banks likely to further increase their presence in the US and European markets, Japanese retail buyers could also soon become bigger buyers of foreign bonds and equities.

Japanese life insurers have increased their investments in foreign securities from 6.9 per cent of total assets to 8.1 per cent in the first nine months of 1996, while in October some 9.1 per cent of trust bank assets were directed to foreign securities, compared with 8.3 per cent at the beginning of the year. Both sets of institutions are likely to increase those weightings as they fight to compete with independent managers in the liberalised pensions market.

In addition, though some dealers expect that Japanese retail flows, which have this year boosted the euroyen market – and in particular, the samurai market in which issuance has more than doubled – will find their way into foreign bond and equity markets next year.

At first glance, the growth of the euroyen market might seem surprising given the decline in the volume of yen-denominated eurobonds. The amount of capital raised through public euroyen bonds is set to fall to its lowest level this year since 1992, with volumes standing currently at some Y4,400bn compared with Y6,282bn in 1995. However, if private placements – off euro medium-term note (EMTN) programmes – are brought into the equation euroyen issuance has increased. Average monthly euro issuance was roughly 11 per cent higher in the first five months of this fiscal year (April to August) – the most recent period for which figures are available – than in the previous fiscal year, according to ministry of finance figures. Indeed, during those five months private placements accounted for 63 per cent of all issuance compared with 49 per cent in the 1995 fiscal year and 42 per cent in 1994. At the same time, the volume of samurai issuance this year has more than doubled, to Y3,798bn from Y1,656bn in 1995, according Capital Data Bondware.

Several factors explain this shift in the euroyen market. Firstly, trends in the swaps market have made issuance of public euroyen bonds unattractive for many institutional borrowers. In return for receiving funds at yen Libor, borrowers need to pay dollar Libor plus 16 basis points (compared with a recent high of more than 20 basis points), according to dealers. These swap rates require borrowers to obtain exceptionally tight financing costs in Japan, which it has often only been possible to achieve in the retail sector, where, with interest rates at historic lows, savers have been starved of attractive investment opportunities.

Two kinds of samurai bonds have been attractive to retail buyers: first, those issued by emerging market borrowers such as Romania and the Philippines which offer a higher yield in return for greater credit risk. Earlier this year Japanese rules restricting issuance to investment-grade borrowers were eased, paving the way for an increase of non-investment grade borrowers. Second, structured notes offering the investor a higher return in exchange for an element of currency risk. So-called dual-currency bonds, which are usually short to medium-term in maturity, pay a coupon in yen and are redeemed in a foreign currency, and have been popular since the middle of last year. Although bonds have matured in a variety of currencies, some 80 per cent of the total have been in Australian dollars.

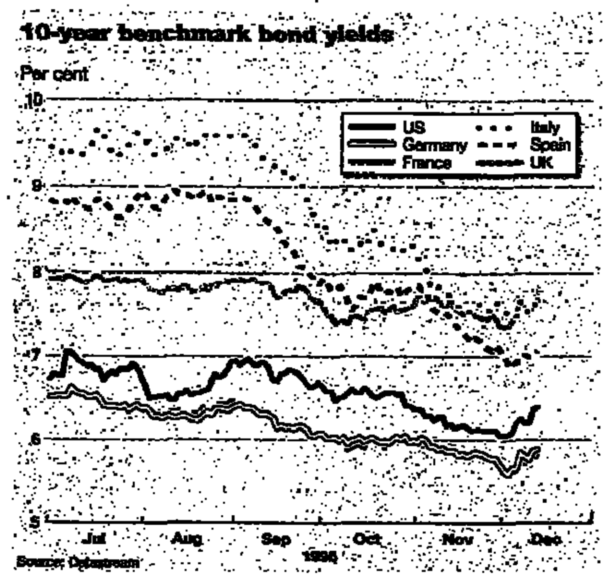
As well as retail buyers, smaller financial institutions such as regional and agricultural banks and mutual aid associations – whose freedom to invest more widely has been increased by pension fund reform – have also been active buyers both of samurai and euroyen, especially of the smaller deals which can be more easily and economically managed off an EMTN programme than through a separate publicly-listed issue. Since October, more than 70 per cent of issues off EMTN programmes have been of Y1bn or less in size, according to one Japanese dealer.

Some dealers are predicting that although demand for some of these structured products may continue to grow, some smaller investors may become more emboldened to buy foreign currency-denominated bonds and stocks, especially if the yen/dollar exchange rate stabilises at current levels. This is partly because the deregulation of foreign exchange rules should make it cheaper.

From next April, it is widely expected that banks will lose their monopoly on foreign exchange transactions, triggering a fall in dealing costs. Already, securities firms are recommending that rather than buy dual-currency bonds (which entail only one foreign exchange transaction) investors buy foreign currency government bonds (which involve several currency transactions).

According to a news reports last week, Nomura, Japan's biggest securities house, is recommending that customers seeking higher returns buy a mixed portfolio of foreign government bonds with the emphasis on US Treasuries. Mr Takeo Sumino, associate director at Nomura International in London, says investors "will continue to expand their horizons" and sterling-denominated assets could be particularly attractive.

10-year benchmark bond yields



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	3.20†	7.50	6.00‡
Overnight	5.19	0.44	3.00	3.30	7.75	5.88
Three month	4.90	0.12	3.13	3.35	7.06	6.26
One year	5.43	0.25	3.19	3.40	6.48	6.66
Five year	6.07	1.46	4.53	4.71	6.87	7.28
Ten year	6.33	2.56	5.86	5.79	7.59	7.62

(†) France-Repo rate. (‡) UK-Base rate. Source: Reuters.

EMERGING MARKETS By Paul Adams

Nigeria fails to lure foreigners

Nigeria has been among the world's best performing equity markets for the last two years, with a stable currency and an improved foreign investment regime – but prospective offshore investors have stayed away.

Local investors have been the main beneficiaries of index rises, in dollar terms, of 140 per cent in 1995 and more than 30 per cent this year. "The market itself, by most definitions, is cheap, but there are some caveats," says Mr Michael Power who runs Barings Asset Management's Africa fund.

Although offshore investment in the Nigerian market has been possible since last August, the problems facing the portfolio investor have deterred all but the most intrepid of the emerging market funds. Total capitalisation is only about $3.3bn and the market lacks liquidity. Good equity research and custodial services are not yet available, settlement takes months and dealing charges are the highest in the world.

For Barings, the overriding problem is custody, since there is no SEC-approved custodian service. "Citibank plans to offer the service but it is not yet confirmed. This is a *sine qua non* for us," says Mr Power.

After that come political and economic risk. "There has been some improvement in the structure of the economy, helped by this year's firmer oil price," Mr Power says. "We have also started to see some moves by multinationals in Nigeria. Like them, we realise that this is a market of about 100m people which investors cannot afford to ignore."

The naira has been stable for two years; indeed this month it has appreciated to N79/$1, but Barings points out the stock market's structure leaves a currency risk.

"Very few of the 170 stocks are export-oriented, which means natural hedging is impossible so my portfolio would be unbalanced," says Mr Power.

Investors who have made money this year have needed to be more sophisticated than in the past. Even blue chip stocks in some sectors have taken a battering.

"There have been some dramatic changes of fortune – but linked to the companies' fundamentals," says Mr Jonathan Long, managing director of First City Merchant Bank.

The classic example has been the brewing sector, dominated by two companies. Both shares have performed badly as the beer market is depressed, but one has recently picked up. Nigerian Breweries, part-owned by Heineken, went into the soft drinks sector recently and the market likes that. Analysts also have high hopes for Guinness Nigeria, whose takeover by Guinness UK has also been well received.

Such swings highlight the investors' need for equity research and better information from companies. A few stockbrokers in Lagos – City Securities, Denham Management and Hamilton Hammer – are trying to meet that need, while the country's only credit rating agency, Agusto & Co, is also offering a research service.

Mr Bolaje Balogun, head of City Securities, underlines the unexpected volatility in leading stocks this year.

"This was noticeable both in the breweries and in the two leading cement-makers [both part-owned by UK group Blue Circle]. While Wapco posted profits slightly down on last year, the shares shot up. Ashaka Cement posted better results and the shares travelled south," says Mr Balogun.

"We are also realising the lack of depth in this market. The local purchasing power has been tested by the rise in shares." Mr Balogun added that when the p/e ratio reached 10, investors became reluctant to buy; this year the market has been trading on a p/e of 11.

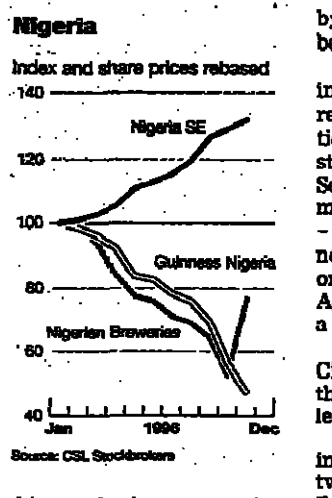
A new stock market trading system, due to start early next year, will revolutionise Nigeria's creaking settlement system, brokers believe. But, although a small cut is being made in brokers' fixed commissions on a sliding scale, total transaction charges make it a very expensive market.

Mr Wale Edun, of Denham Management, points to some improvements this year. "Brokers are now allowed to do cross deals on the floor of the exchange and restrictions on price movements were replaced by a 5 per cent daily cap on prices," he says.

But quality stock is still scarce. At the start of the year, brokers estimated that only 5–10 per cent of market capitalisation was available for trading. The biggest 20 companies in the market account for more than 80 per cent of capitalisation. Half the equity is offshore with multinationals, and 20 per cent is in the hands of Nigerian institutional investors, such as insurance and pension funds. Most of the rest is with private investors who tend to buy and hold.

Nearly all the biggest companies in Nigeria are state-owned or owned by foreign oil producing companies. Only three of the 15 largest companies are quoted stocks, Mr Balogun says. If any of the top eight capitalised companies were listed it would double market capitalisation, as Ashanti Goldfields did for Ghana.

Nigeria



Source: CSL Stockbrokers

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	13/12/96	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (448)	155.87	-3.07	-1.93	-2.35	-1.48	+8.31	+5.83
Latin America							
Argentina (22)	98.23	-5.28	-5.10	-0.92	-0.93	+5.46	+5.88
Brazil (24)	247.07	-9.419	-3.67	+1.25	+0.51	+60.98	+32.77
Chile (16)	165.80	-1.85	-1.10	-16.67	-9.13	-29.87	-15.27
Colombia (13)	171.96	-3.49	-1.99	-4.14	-2.35	+7.71	+4.70
Mexico (27)	78.82	-2.50	-3.08	-3.16	-3.86	+5.22	+7.090
Peru (12)	1008.47	-35.92	-3.44	-78.41	-7.21	-60.48	-5.66
Venezuela (6)	57.48	-1.48	-2.52	-2.14	-3.59	+29.95	+108.90
Latin America (119)	137.57	-4.80	-3.37	-3.61	-2.56	+14.43	+11.72
Europe							
Czech Rep.(14)	97.94	+0.09	+0.09	+5.34	+5.76	+21.64	+28.37
Greece (20)	109.48	-0.64	-0.58	-3.96	-3.49	+11.51	+11.75
Poland (25)	335.82	+3.50	+1.08	+2.12	+0.64	+134.66	+66.95
Portugal (17)	142.37	+1.57	+1.12	+0.32	+0.22	+25.92	+22.26
South Africa (30)	125.17	-4.39	-3.39	-6.70	-5.08	-28.21	-18.39
Turkey (27)	119.74	-8.24	-6.44	+5.11	+4.40	+38.94	+44.61
Europe (133)	114.12	-2.76	-2.36	-2.96	-2.53	-7.41	-6.10
Asia							
China (27)	53.14	+2.48	+4.90	+10.21	+23.78	+12.82	+31.80
Indonesia (30)	154.09	-1.35	-0.87	+6.30	+4.26	+15.45	+11.14
Korea (23)	82.75	-4.30	-4.94	-13.59	-14.10	-54.15	-39.55
Malaysia (24)	268.65	-0.02	-0.01	+2.43	+0.91	+41.28	+18.16
Pakistan (13)	63.06	-2.40	-3.67	-7.73	-10.92	-10.53	-14.31
Philippines (18)	309.43	-2.13	-0.58	+8.10	+2.59	+50.27	+19.40
Taiwan (31)	184.89	-0.71	-0.38	+7.78	+4.39	+54.07	+41.33
Thailand (29)	168.49	+0.08	+0.05	-23.37	-12.31	-85.40	-33.80
Asia (193)	215.40	-1.12	-0.52	-0.11	-0.05	+12.36	+6.09

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Zhenhai Refining & Chem(a)§	200	Dec 2003	3.00	100.00	-	-	ING Barings/M Stanley
Republic of Kazakhstan	200	Dec 1999	9.25#	99.872R	9.300	+350(5⅞%-99)	ABN Amro Hoare Govett
MBI Finance(b)§	219	Dec 2001	zero	88.44	-	-	Jardine Fleming
Société Générale(c)‡	60	undated	(c1)	99.883R	-	-	(c2)
Globopar(e)	250	Dec 2006	10.50#	99.441R	10.59	+437½(6½-06)	Citibank International
Globopar(f)	100	Dec 2004	9.875#	99.823R	9.727	+375(5⅞%-01)	Citibank International
Bayerische Hypo	200	Jan 2000	6.00	99.945R	6.021	+15(5⅞Nov99)	CIBC/Paribas Capl Mkts
Foreningsbanken(g)‡	100	undated	(g1)	99.785R	-	-	Salomon Brothers Intl
Foreningsbanken‡	100	Dec 2003	(h)	99.717R	-	-	Salomon Brothers Intl
Indover Bank‡	150	Jan 2002	(i)	100.00R	-	-	ABN/HSBC/Sumitomo
Globex Utilidades(k)★	100	Dec 2004	(k1)#	99.879R	9.297	+350(5⅞%-99)	Bank of Boston
Banco Tornquist	75	Dec 1998	8.75#	100.00R	8.750	+305(5⅞%-98)	Deutsche Morgan G'fell
GTR MT, 96-2, Class A(m)‡	478.8	Dec 1999	(m1)	100.00R	-	-	Merrill Lynch
LB Rheinland-Pfalz(l)	200	Jan 2001	6.125	99.82R	6.177	+10(l)	ABN Amro/DKB Intl
Camuzzi(l)	130	Dec 2001	9.25#	99.80R	9.300	+328(5⅞%-01)	Merrill Lynch
Bco do Nordeste do Brazil(o)	100	Dec 2004	10.00#	99.47R	9.880	+383(5⅞%-01)	CS First Boston
LB Schleswig-Holstein(o,s)	100	Jan 2000	6.00	99.95R	6.00	+10(5⅞Nov99)	Paribas Capital Markets
BPI Capital Finance(p)‡	100	undated	(p1)	100.00	-	-	UBS
Commerzbank O'seas Fin(i)	75	Jan 2001	(q)	100.371R	6.07	+5(l)	Commerz/Kreditbank
Ras Laffan LNG(t1)	400	Sep 2006	7.628#	100.00R	7.628	+135(7⅞%-04)	Goldman Sachs
Ras Laffan LNG(t2)	800	Sep 2014	8.294#	100.00R	8.294	+187½(l)	Goldman Sachs
Israel Electric Corp(s)★	350	Dec 2006	7.25#	99.81R	7.277	+91(6½%-06)	Lehman Brothers
Israel Electric Corp(s)★	125	Dec 2026	7.875#	99.555R	7.914	+125(6¾%-26)	Lehman Brothers
Israel Electric Corp(s)★	125	Dec 2096	8.10#	99.827R	8.114	+145(6¾%-26)	Lehman Brothers
Korea Exchange Bank‡	200	Dec 1997	(u)	99.952R	-	-	Nomura International
Republic Trinidad & Tobago	150	Dec 2006	9.00#	99.323R	9.100	+175(6½%-06)	Citibank International
BICE	100	Dec 2000	9.375#	99.759R	8.500	+338(5½%-00)	ING Barings
Bco de Credito Argentino(v)	100	Dec 1998	8.50#	100.00R	9.450	+305(T-bill)	Salomon Brothers
Province of Ontario(A)★‡	50	Jan 2002	(A1)	100.25	-	-	DKB International
D-MARKS							
Republic of Argentina(s)	1bn	Feb 2005	8.50	99.50R	8.598	+285(7⅞%-05)	CSFB/Deutsche MG
Brazil Repackaged Bonds(w)	120	Apr 2012	(w1)	99.50R	11.94	-	Morgan Stanley Bank
YEN							
SmithKline Beecham Capital	10bn	Dec 2002	1.96	100.30	1.907	-	Nikko Europe
Sumitomo Realty & Dev(x)★	10bn	Jan 2003	2.40	100.075R	2.39	-	Daiwa Europe
Belgacom★	10bn	Dec 2026	(B)	100.59	-	-	Sanwa Intl/Yamaichi Intl
STERLING							
UBS, London Branch	250	Jan 2007	8.00	99.62R	8.057	+39(7½%-06)	UBS
Craegmoor Fin, Cls A(y)‡	51.2	Dec 2006	(y1)	100.00	-	-	UBS
SWISS FRANCS							
Kingdom of Sweden	200	Jan 2007	4.00	101.50	3.817	-	Credit Suisse
FRENCH FRANCS							
Crédit Local de France	3bn	Jan 2004	5.375	99.35R	5.489	+17(l)	Société Générale
LUXEMBOURG FRANCS							
Euro Coal & Steel Comm	2.8bn	Jan 2002	4.75	101.85	4.331	-	BCEE/BGL/BIL
ITALIAN LIRE							
European Inv'ment Bank‡	1000bn	Jun 2004	(d,s)	99.95R	-	-	(d1)
Eurofima‡	500bn	Aug 2006	(z,s)	100.375	-	-	BNL/Credito/San Paolo
AUSTRALIAN DOLLARS							
NSW Treasury Corp(s)	100	Jul 2002	7.00	101.11	-	-	Toronto Dominion Bank
CANADIAN DOLLARS							
KfW International Finance(s)	100	Dec 2002	5.75	99.18R	5.918	+26(7%Sep01)	Toronto Dominion Bank
DANISH KRONER							
DSL Finance	400	Jan 2003	5.875	101.775	5.519	-	Generale Bank
ING Bank	400	Jan 2007	(t)	102.00	6.78	-	Bank Brussels Lambert

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ΦWith equity warrants. ★Unlisted. #Semi-annual coupon and yield. R. fixed re-offer price. a) Conversion price: HK$2.80. FX: 7.735HK$/US$. Puttable on 19/12/01 at 122.94%. Callable from Dec 99, subject to 140% hurdle, at par. b) Exchangeable into Metropolitan Bank & Trust Co shares at pesos 670. FX: 26.295 pesos/$. Callable from 18/12/99, subject to 140% hurdle, at 100%. c) Fungible with $250m. Plus 69 days accrued. Callable from Oct 06 at par. c1) 3-mth Libor +62½bp to Oct 06, then +200bp. c2) Joint book-runners: Bear Stearns, Morgan Stanley and SocGen. d) 3-mth Libor -30bp. d1) Joint book-runners: BCI, BNL, Cariplo, Credito Italiano, Deutsche Morgan Grenfell, IMI Bank (Lux), San Paolo and JP Morgan. e) Callable from 20/12/01 at 104½% falling 1½%pa to par. f) Callable & puttable on 20/12/01 at 99.74% and 98.79%. g) Callable from Dec 01 at par. g1) 3-mth Libor +75bp to Dec 01, then +225bp. h) 3-mth Libor +55bp. l) Over interpolated yield. j) 3-mth Libor +30bp. k) Callable & puttable on 13/12/99 & 01 at par. k1) 9¼% to 13/12/99, then 9¾% to 13/12/01, then 10¼%. l) Long 1st coupon. m) Green Tree Receivables Master Trust. Legal maturity: Dec 01, average life: 2.99 yrs. m1) 1-mth Libor +8bp. m2) Class B: $21.5m, 1-mth Libor +30bp, par, Jan 00, av life 3 yrs. n) Callable & puttable on 20/12/01 at 98.39%. o) Fungible with $200m. Plus 31 days accrued. p) Callable from Dec 01 at par. p1) 3-mth Libor +115bp to Dec 01, then +265bp. q) 5% to 23/1/99, then 7½%. r) 6% to 29/1/02, then 8% to 29/1/05, then 9½%. s) Short 1st coupon. t1) Average life: 7.3 yrs. Plus 4 days accrued. t2) Average life: 15 yrs. Plus 4 days accrued. u) 3-mth Libor +10bp. v) Puttable on 18/12/97 at par. w) DM100m launched 15/11/96 was increased to DM220m. Callable on coupon dates from 15/10/99 at par. Amortises in 17 equal instalments from 15/4/04. Average life: 11½ yrs. w1) 13% to 15/10/99, then 10⅝%. x) Short 1st & last coupons. y) Legal maturity: 31/12/08. Average life: 8.5 yrs. Callable at 100¼% to Dec 98, then at par. y1) 3-mth Libor +50bp to Dec 06, then +250bp. y2) Class B: £11.2m, av life: 10 yrs, 3-mth L +70bp to Dec 06, then +270bp, par. y3) Class C: £17.6m, av life: 10 yrs, 3-mth L +125bp to Dec 06, then +325bp, par. z) 6-mth Libor -20bp. A) Callable from Jan 00 at par. A1) 6-mth Libor +30bp, max 6.8%. B) 6.07% in A$%, 5.67% in DM or 5.87% in US$. Note: Yields are calculated on ISMA basis.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Dec 13		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	18.0457	+0.0304	363 - 550	18.0560	17.9446	18.0022	2.9	17.9457	2.2	-	-	104.4
Belgium	(BFr)	52.8105	+0.0258	780 - 430	52.8530	52.6050	52.6856	2.8	52.4205	3.0	51.2255	3.0	105.2
Denmark	(DKr)	9.8085	+0.0082	030 - 139	9.8177	9.7584	9.7888	2.4	9.748	2.5	9.5691	2.4	106.9
Finland	(FM)	7.6573	+0.0081	808 - 737	7.6780	7.6080	-	-	-	-	-	-	84.5
France	(FFr)	8.6581	-0.0029	543 - 619	8.6623	8.6170	8.6373	2.9	8.5957	2.9	8.391	3.1	108.1
Germany	(DM)	2.5644	+0.0043	631 - 657	2.5660	2.5482	2.5579	3.0	2.5448	3.1	2.4798	3.3	107.1
Greece	(Dr)	405.399	+0.705	134 - 644	407.015	401.289	-	-	-	-	-	-	68.7
Ireland	(I£)	0.9985	+0.0012	978 - 993	0.9995	0.9957	0.9982	0.4	0.9972	0.5	0.9907	0.8	102.4
Italy	(L)	2532.52	-1.18	118 - 386	2534.69	2516.42	2536.32	-1.8	2543.82	-1.8	2546.32	-0.6	77.8
Luxembourg	(LFr)	52.8105	+0.0258	780 - 430	52.8530	52.6050	52.6856	2.8	52.4205	3.0	51.2255	3.0	105.2
Netherlands	(Fl)	2.8773	+0.008	756 - 790	2.8795	2.8621	2.8695	3.3	2.854	3.2	2.7805	3.4	105.2
Norway	(NKr)	10.7390	+0.0171	341 - 439	10.7569	10.6697	10.7265	1.4	10.7065	1.2	10.6016	1.3	99.4
Portugal	(Es)	259.028	+0.349	867 - 189	259.211	257.584	259.223	-0.9	259.593	-0.9	-	-	95.3
Spain	(Pta)	215.777	+0.169	637 - 917	216.302	214.929	215.857	-0.4	215.737	0.1	215.826	0.1	79.5
Sweden	(SKr)	11.2908	+0.0016	791 - 025	11.3126	11.2476	11.2718	2.0	11.2273	2.3	11.0178	2.4	88.2
Switzerland	(SFr)	2.1819	+0.0038	796 - 842	2.1844	2.1659	2.1738	4.4	2.1587	4.3	2.0872	4.3	105.0
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	93.2
Ecu	-	1.3300	+0.0004	292 - 307	1.3317	1.3230	1.3281	1.8	1.3236	1.9	1.3022	2.1	-
SDR†	-	1.146710											
Americas													
Argentina	(Peso)	1.6573	-0.0007	566 - 578	1.6623	1.6520	-	-	-	-	-	-	-
Brazil	(R$)	1.7225	+0.0036	216 - 233	1.7268	1.7176	-	-	-	-	-	-	-
Canada	(C$)	2.2598	+0.0058	555 - 577	2.2622	2.2463	2.2513	2.7	2.2406	2.8	2.1816	3.3	84.9
Mexico	(New Peso)	13.1368	+0.0249	262 - 510	13.2216	13.0895	-	-	-	-	-	-	-
USA	($)	1.6561	-0.0001	576 - 586	1.6631	1.6523	1.6574	0.5	1.6548	0.8	1.6418	1.0	98.1
Pacific/Middle East/Africa													
Australia	(A$)	2.0890	-0.0025	877 - 902	2.0959	2.0649	2.0903	-0.7	2.091	-0.4	2.0906	-0.1	94.6
Hong Kong	(HK$)	12.8329	+0.0069	282 - 376	12.8862	12.7850	12.8256	0.7	12.8117	0.7	12.7471	0.7	-
India	(Rs)	59.4429	-0.0616	421 - 437	59.5720	59.2680	-	-	-	-	-	-	-
Israel	(Shk)	5.4482	+0.0079	418 - 568	5.4571	5.4308	-	-	-	-	-	-	-
Japan	(Y)	188.742	+0.777	602 - 881	188.960	186.800	187.812	5.9	185.957	5.9	177.542	5.9	128.3
Malaysia	(M$)	4.1842	+0.001	821 - 863	4.1957	4.1698	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3621	-0.009	602 - 640	2.3887	2.3444	2.3666	-3.4	2.3782	-2.7	2.399	-1.6	111.4
Philippines	(Peso)	43.5988	-0.0026	120 - 875	43.7216	43.4564	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.2187	-0.0005	165 - 209	6.2371	6.1994	-	-	-	-	-	-	-
Singapore	(S$)	2.3201	+0.0003	190 - 212	2.3289	2.3126	-	-	-	-	-	-	-
South Africa	(R)	7.8486	-0.0403	421 - 551	7.8709	7.8369	-	-	-	-	-	-	-
South Korea	(Won)	1399.77	-3.24	819 - 936	1399.89	1391.81	-	-	-	-	-	-	-
Taiwan	(T$)	45.5978	-0.0027	908 - 447	45.7020	45.4333	-	-	-	-	-	-	-
Thailand	(Bt)	42.3894	-0.0108	683 - 104	42.5010	42.2480	-	-	-	-	-	-	-

† Rates for Dec 12. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 13		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.8834	+0.019	810 - 857	10.8940	10.8190	10.8687	1.6	10.8284	2.2	10.6264	2.3	104.4
Belgium	(BFr)	31.8500	+0.0175	400 - 600	31.9370	31.7050	31.79	2.3	31.6625	2.4	31.1225	2.3	105.1
Denmark	(DKr)	5.9155	+0.0041	140 - 170	5.9270	5.8910	5.9066	1.8	5.8882	1.8	5.8065	1.8	106.4
Finland	(FM)	4.6241	+0.0051	216 - 266	4.6300	4.6039	4.6152	2.3	4.5966	2.4	4.5141	2.4	84.0
France	(FFr)	5.2217	-0.0014	210 - 224	5.2330	5.1939	5.2134	1.9	5.1954	2.0	5.1197	2.0	107.5
Germany	(DM)	1.5466	+0.0027	463 - 469	1.5495	1.5373	1.5437	2.3	1.5377	2.3	1.513	2.2	106.8
Greece	(Dr)	244.490	+0.44	410 - 510	245.960	241.830	246.015	-7.6	248.585	-6.7	258.81	-5.2	65.5
Ireland	(I£)	1.6607	-0.0021	597 - 616	1.6665	1.6565	1.6600	0.3	1.6599	0.2	1.657	0.2	-
Italy	(L)	1527.38	-0.62	700 - 772	1532.13	1515.00	1530.53	-2.5	1538.98	-2.6	1560.01	-1.5	77.4
Luxembourg	(LFr)	31.8500	+0.0175	400 - 600	31.9370	31.7050	31.79	2.3	31.6625	2.4	31.1225	2.3	105.1
Netherlands	(Fl)	1.7353	+0.0037	348 - 358	1.7380	1.7251	1.7315	2.5	1.7235	2.7	1.688	2.7	105.1
Norway	(NKr)	6.4767	+0.0107	757 - 777	6.4999	6.4285	6.4729	0.7	6.4673	0.6	6.4417	0.5	98.9
Portugal	(Es)	156.220	+0.22	170 - 270	156.260	155.350	156.425	-1.6	156.72	-1.3	157.495	-0.8	95.6
Spain	(Pta)	130.135	+0.11	090 - 180	130.410	129.460	130.235	-0.9	130.405	-0.8	130.5	-0.3	79.3
Sweden	(SKr)	6.8095	+0.0005	045 - 145	6.8269	6.7756	6.8067	0.5	6.7989	0.7	6.7405	0.9	87.8
Switzerland	(SFr)	1.3159	+0.0024	149 - 169	1.3160	1.3055	1.3121	3.5	1.3043	3.5	1.2714	3.4	105.6
UK	(£)	1.6561	-0.0001	576 - 586	1.6631	1.6523	1.6574	-0.5	1.6549	0.8	1.6418	1.0	93.2
Ecu	-	1.2468	-0.0004	464 - 471	1.2534	1.2460	1.2491	-1.3	1.2512	-1.4	1.2678	-1.7	-
SDR†	-	0.694655											
Americas													
Argentina	(Peso)	0.9995	-0.0004	995 - 996	0.9995	0.9995	-	-	-	-	-	-	-
Brazil	(R$)	1.0388	+0.0022	386 - 390	1.0392	1.0375	-	-	-	-	-	-	-
Canada	(C$)	1.3610	+0.0036	607 - 612	1.3619	1.3585	1.3586	2.1	1.3636	2.2	1.3261	2.6	84.5
Mexico	(New Peso)	7.9240	+0.0155	190 - 290	7.9295	7.9180	8.042	-17.9	8.3065	-19.4	9.169	-15.7	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.7
Pacific/Middle East/Africa													
Australia	(A$)	1.2598	+0.0015	594 - 602	1.2618	1.2590	1.2613	-1.4	1.2622	-1.1	1.2687	-0.7	95.9
Hong Kong	(HK$)	7.7395	+0.004	390 - 400	7.7400	7.7355	7.7394	0.0	7.7399	0.0	7.751	-0.1	-
India	(Rs)	35.8500	-0.035	000 - 000	35.8000	35.7900	36.085	-7.2	36.525	-7.5	-	-	-
Israel	(Shk)	3.2864	+0.004	800 - 900	3.2910	3.2801	-	-	-	-	-	-	-
Japan	(Y)	113.830	+0.475	780 - 880	113.880	112.710	113.355	5.0	112.35	5.2	108.15	5.0	129.4
Malaysia	(M$)	2.5226	+0.0008	220 - 240	2.5268	2.5225	2.5203	1.1	2.5317	-1.3	2.553	-1.2	-
New Zealand	(NZ$)	1.4248	-0.0093	235 - 260	1.4299	1.4235	1.4301	-4.6	1.4344	-2.9	1.4659	-2.9	-
Philippines	(Peso)	26.2950	-	500 - 400	26.3400	26.2500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-0.0001	503 - 507	3.7508	3.7502	3.7508	-0.1	3.7512	-0.1	3.7531	-0.1	-
Singapore	(S$)	1.3995	+0.0003	990 - 995	1.3995	1.3980	1.3971	1.8	1.3925	1.9	1.3713	2.0	-
South Africa	(R)	4.7335	-0.024	310 - 360	4.7500	4.7290	4.7742	-10.3	4.8492	-9.8	5.164	-9.1	-
South Korea	(Won)	842.600	-1.9	500 - 700	844.800	841.900	-	-	-	-	-	-	-
Taiwan	(T$)	27.5000	-	800 - 200	27.5270	27.4790	27.5001	0.0	27.5003	0.0	-	-	-
Thailand	(Bt)	25.5650	-0.005	600 - 700	25.5700	25.5500	25.655	-4.2	25.8225	-4.0	26.46	-3.5	-

† SDR rate per $ for Dec 12. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 12: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

December 13	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3¼	3¼	3¼	3¼	3½	6.00	2.50	-
week ago	3¼	3¼	3¼	3¼	3½	6.00	2.50	-
France	3½	3½	3¼	3¼	3½	3.20	-	4.75
week ago	3⅝	3⅝	3⅜	3⅜	3½	3.20	-	4.75
Germany	3¼	3¼	3¼	3¼	3⅜	4.50	2.50	3.00
week ago	3¼	3¼	3¼	3¼	3⅜	4.50	2.50	3.00
Ireland	5¾	5⅞	5⅞	6	6⅛	-	-	6.25
week ago	5¾	5⅞	5⅞	5⅞	6	-	-	6.25
Italy	7½	7⅜	7¼	7	6⅞	-	7.50	7.83
week ago	7⅝	7½	7⅜	7⅛	6⅞	-	7.50	8.05
Netherlands	2⅝	2⅞	3	3	3⅛	-	3.00	3.30
week ago	2⅝	2⅞	3	3	3⅛	-	3.00	3.30
Switzerland	1⅛	2	2	2	2⅛	5.00	1.00	-
week ago	1⅛	2	2	2	2⅛	5.00	1.00	-
US	5⅜	5⅜	5⅝	5¾	5⅞	-	5.00	-
week ago	6¼	5⅜	5⅝	5¾	5⅞	-	5.00	-
Japan	½	½	½	½	⅝	-	0.50	-
week ago	½	½	½	½	⅝	-	0.50	-
$ LIBOR FT London Interbank Fixing	-	5⅜	5½	5⅝	5¾	-	-	-
week ago	-	5⅜	5½	5⅝	5⅞	-	-	-
US Dollar CDs	-	4.85	5.05	5.13	5.32	-	-	-
week ago	-	4.85	5.08	5.17	5.35	-	-	-
ECU Linked Ds	-	4⅛	4⅛	4⅛	4⅛	-	-	-
week ago	-	4⅛	4⅛	4⅛	4⅛	-	-	-
SDR Linked Ds	-	3⅜	3⅜	3⅜	3½	-	-	-
week ago	-	3⅜	3⅜	3⅜	3½	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Dec 13	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 3	3⅛ - 3	3⅛ - 3⅛	3⅜ - 3⅛
Danish Krone	3⅞ - 3½	3⅞ - 3⅞	3⅝ - 3½	3⅝ - 3½	3¾ - 3⅞	3⅞ - 3⅞
D-Mark	3⅛ - 2⅞	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3¼ - 3⅛	3⅜ - 3⅛
Dutch Guilder	2⅞ - 2⅞	3 - 2⅞	3⅛ - 2⅞	3⅛ - 3	3⅛ - 3⅛	3⅞ - 3⅛
French Franc	3⅞ - 3⅝	3⅞ - 3⅛	3⅞ - 3⅞	3½ - 3⅞	3⅞ - 3⅜	3⅞ - 3⅞
Portuguese Esc.	6¾ - 6⅜	6⅞ - 6¾	6⅞ - 6⅞	6½ - 6⅞	6⅜ - 6⅜	6⅛ - 6
Spanish Peseta	6⅞ - 6⅞	6⅞ - 6⅞	6⅞ - 6⅞	6⅝ - 6⅞	6⅜ - 6⅛	6⅛ - 5⅞
Sterling	7 - 6½	6⅞ - 5⅞	6⅜ - 6⅛	6⅞ - 6⅜	6½ - 6⅞	6⅞ - 6⅞
Swiss Franc	1⅞ - 1⅞	1½ - 1⅜	2⅛ - 2	2⅛ - 1⅞	2⅛ - 1⅞	2⅛ - 2
Can. Dollar	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 3⅛	3⅜ - 3¼	3⅞ - 3⅞
US Dollar	5⅜ - 5⅛	5⅜ - 5¼	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞
Italian Lira	8⅜ - 7½	7⅞ - 7⅜	7⅜ - 7⅞	7⅜ - 7⅛	6⅞ - 6⅞	6⅞ - 6½
Yen	⅞ - ⅞	⅞ - ⅞	⅜ - ⅛	⅜ - ⅛	⅞ - ⅞	½ - ¼
Asian $Sing	2¾ - 2⅝	2⅞ - 2⅞	3⅜ - 3⅜	3⅜ - 3⅛	3⅜ - 3¼	3½ - 3⅜

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.46	94.47	-0.03	94.47	94.45	28,966	346,920
Mar	94.44	94.47	-	94.49	94.43	73,423	399,687
Jun	94.30	94.35	-0.08	94.40	94.30	80,853	307,059

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.02	95.04	+0.04	95.06	95.02	104	4,707
Jun	94.88	94.94	+0.07	94.94	94.88	437	2,319
Sep	-	94.81	+0.05	-	-	9	25

All Open interest figs. are for previous day

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1996 High	1996 Low	Stock	Closing price p	+or-
118	Nil	3/1	11pm	5pm	Allied Colloids	6½pm	-2½
5	Nil	3/1	1½pm	1½pm	Aukett Assoc	1½pm	
620	Nil	3/1	¼pm	¼pm	Azlan	¼pm	
500	Nil	6/1	242½pm	167½pm	Biocompatibles	235pm	-7½
600	Nil	17/12	139½pm	95½pm	Bodycote Intl	139½pm	+29½
220	Nil	18/12	48½pm	26pm	INVESCO Units	28pm	-13½
600	Nil	6/1	32½pm	9½pm	More Group	9½pm	
30	Nil	8/1	2¾pm	½pm	Regalian	½pm	

pm premium.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 13		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.57	16.39	4.855	1.892	4796	5.448	20.34	490.4	408.6	21.38	4.132	1.894	4.274	3.140	357.3	2.518
Denmark	(DKr)	53.84	10	8.827	2.614	1.017	2582	2.933	10.95	264.0	220.0	11.51	2.224	1.020	2.301	1.690	192.4	1.356
France	(FFr)	61.00	11.33	10	2.961	1.153	2925	3.323	12.40	299.1	249.2	13.04	2.520	1.155	2.607	1.915	217.9	1.536
Germany	(DM)	20.60	3.826	3.377	1	0.389	987.9	1.122	4.189	101.0	84.17	4.403	0.851	0.390	0.880	0.647	73.60	0.519
Ireland	(I£)	52.92	9.829	8.675	2.569	1	2538	2.883	10.76	259.5	216.2	11.31	2.186	1.002	2.262	1.661	189.1	1.333
Italy	(L)	2.085	0.387	0.342	0.101	0.039	100.	0.114	0.424	10.22	8.520	0.446	0.086	0.039	0.089	0.065	7.450	0.053
Netherlands	(Fl)	18.36	3.409	3.009	0.891	0.347	880.4	1	3.733	90.02	75.01	3.924	0.758	0.348	0.784	0.576	65.60	0.462
Norway	(NKr)	49.17	9.133	8.061	2.387	0.929	2358	2.679	10	241.2	200.9	10.51	2.032	0.931	2.101	1.544	175.7	1.238
Portugal	(Es)	20.39	3.787	3.343	0.990	0.385	978.0	1.111	4.147	100.	83.32	4.359	0.842	0.386	0.871	0.640	72.86	0.514
Spain	(Pta)	24.47	4.545	4.012	1.188	0.462	1174	1.333	4.977	120.0	100.	5.232	1.011	0.463	1.046	0.768	87.44	0.616
Sweden	(SKr)	46.78	8.688	7.669	2.271	0.884	2244	2.548	9.513	229.4	191.1	10	1.933	0.886	1.999	1.469	167.1	1.178
Switzerland	(SFr)	24.20	4.495	3.968	1.175	0.457	1161	1.319	4.922	118.7	98.90	5.174	1	0.458	1.034	0.760	86.48	0.610
UK	(£)	52.81	9.808	8.658	2.564	0.998	2533	2.877	10.74	259.0	215.8	11.29	2.182	1	2.257	1.656	188.7	1.330
Canada	(C$)	23.40	4.346	3.836	1.136	0.442	1122	1.275	4.759	114.8	95.61	5.002	0.967	0.443	1	0.735	83.61	0.589
US	($)	31.85	5.916	5.222	1.546	0.602	1528	1.735	6.478	156.2	130.2	6.809	1.316	0.603	1.361	1	113.8	0.802
Japan	(Y)	27.99	5.198	4.588	1.359	0.529	1342	1.525	5.692	137.3	114.4	5.983	1.156	0.530	1.196	0.879	100.	0.705
Ecu		39.71	7.375	6.510	1.928	0.750	1905	2.163	8.075	194.7	162.3	8.489	1.641	0.752	1.697	1.247	141.9	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.6474	0.6436	-0.0047	0.6501	0.6430	5,059	38,185
Mar	0.6522	0.6472	-0.0047	0.6539	0.6466	18,812	40,530
Jun	0.6564	0.6510	-0.0048	0.6564	0.6500	20	4,389

■ Pound in New York

Dec 13	—Close—	—Prev. close—
£ spot	1.6560	1.6575
1 mth	1.6553	1.6568
3 mth	1.6529	1.6543
1 yr	1.6400	1.6413

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.7627	0.7558	-0.0055	0.7657	0.7553	3,936	34,854
Mar	0.7679	0.7622	-0.0055	0.7730	0.7615	19,400	41,039
Jun	0.7698	0.7699	-0.0055	0.7698	0.7684	29	1,351

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.8830	0.8779	-0.0044	0.8860	0.8772	9,346	27,467
Mar	0.8936	0.8893	-0.0045	0.8980	0.8886	19,642	48,333
Jun	0.9095	0.9007	-0.0046	0.9095	0.9000	9	1,159

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.6546	1.6560	-0.0004	1.6630	1.6528	3,357	34,429
Mar	1.6534	1.6526	-0.0006	1.6610	1.6496	8,484	20,554
Jun	1.6530	1.6486	-0.0006	1.6550	1.6530	1	2,206

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
1.640	1.33	2.27	2.88	-	0.93	1.71
1.650	0.37	1.69	2.38	-	1.34	2.04
1.660	-	1.21	1.91	0.56	1.88	2.69

Previous day's vol., Calls 116 Puts 199 . Prev. day's open int., Calls 34,381 Puts 67,236

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
0.640	0.34	0.85	1.20	-	0.41	0.61
0.645	-	0.57	0.92	0.14	0.61	0.83
0.650	-	0.38	0.69	0.62	0.91	1.11

Previous day's vol., Calls 6,608 Puts 2,092 . Prev. day's open int., Calls 44,396 Puts 36,453

BANK RETURN

BANKING DEPARTMENT	Wednesday December 11, 1996 £	Increase or decrease for week £
Liabilities		
Capital	14,553,000	
Public deposits	1,181,195,483	-67,030,230
Bankers deposits	1,951,121,346	-36,389,554
Reserve and other accounts	3,324,100,066	+36,824,269
	6,470,969,895	-66,595,515
Assets		
Government securities	1,231,203,155	-2,465,625
Advance and other accounts	2,330,804,823	+1,040,758,570
Premise, equipment and other secs	2,896,075,395	-1,131,110,039
Notes	12,770,586	+5,228,257
Coin	115,936	-7,678
	6,470,969,895	-86,595,515
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	21,597,229,414	+203,771,743
Notes in Banking Department	12,770,586	+6,228,257
	21,610,000,000	+210,000,000
Assets		
Other Government securities	15,646,421,424	+866,125,135
Other Securities	5,963,578,576	-656,125,135
	21,610,000,000	+210,000,000

UK INTEREST RATES

LONDON MONEY RATES

Dec 13	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7 - 5½	6⅛ - 5¾	6⅛ - 5⅞	6¼ - 6⅛	6⅞ - 6⅜	6⅞ - 5⅞
Sterling CDs	-	-	6⅛ - 6	6¼ - 6⅛	6⅞ - 6⅞	6⅞ - 6⅞
Treasury Bills	-	-	5⅞ - 5⅞	6⅛ - 6	-	-
Bank Bills	-	-	5⅞ - 5⅞	6⅛ - 6⅛	6⅞ - 6⅜	-
Local authority deps.	5⅞ - 5¾	5⅞ - 5¾	6⅛ - 6	6⅜ - 6¼	6⅜ - 6⅞	6⅞ - 6¾
Discount Market deps	5⅞ - 5¼	5⅞ - 5⅞	-	-	-	-

UK clearing bank base lending rate 6 per cent from October 30, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on Dec 13, 6.0044pc. ECGD fixed rate Stlg. Export Finance. Make up day Nov 29, 1996. Agreed rate for period Dec 25, 1996 to Jan 25, 1997, Scheme III 7.61pc. Reference rate for period Nov 1, 1996 to Nov 29, 1996, Schemes IV & V 6.373pc. Finance House Base Rate 6½pc from Dec 1, 1996

BANK OF ENGLAND TREASURY BILL TENDER

	Dec 13	Dec 6		Dec 13	Dec 6
Bills on offer	£200m	£200m	Top accepted rate	6.0165%	6.0867%
Total of applications	£1243m	£905m	Ave. rate of discount	6.0044%	6.0773%
Total allocated	£200m	£200m	Average yield	6.0957%	6.1708%
Min. accepted bid	£98.500	£98.480	Offer at next tender	£200m	£200m
Allotment at min. level	29%	81%	Min. accept. bid 93 days	-	-

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Cyprus Popular Bank	6.00	NatWestminster	6.00
Allied Irish Bank (GB)	6.00	Duncan Lawrie	6.00	●Rea Brothers	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.00	Royal Bk of Scotland	6.00
●Henry Ansbacher	6.00	Financial & Gen Bank	7.00	●Singer & Friedlander	6.00
Bank of Baroda	*6.00*	●Robert Fleming & Co	6.00	●Smith & Williamson Secs	7.00
Banco Bilbao Vizcaya	6.00	Girobank	6.00	Scottish Widows Bank	6.00
Bank of Cyprus	6.00	●Guinness Mahon	6.00	TSB	6.00
Bank of Ireland	5.75	Habib Bank AG Zurich	6.00	United Bank of Kuwait	6.00
Bank of India	6.00	●Hambros Bank	6.00	Unity Trust Bank Plc	6.00
Bank of Scotland	6.00	Heritable & Gen Inv Bk	6.00	Western Trust	6.00
Barclays Bank	6.00	●Hill Samuel	6.00	Whiteaway Laidlaw	6.00
Brit Bk of Mid East	6.00	C. Hoare & Co	6.00	Yorkshire Bank	6.00
●Brown Shipley & Co Ltd	6.00	Hongkong & Shanghai	6.00		
Citibank NA	6.00	Julian Hodge Bank	6.00	● Members of London Investment Banking Association	
Clydesdale Bank	6.00	●Leopold Joseph & Sons	6.00	* In administration	
The Co-operative Bank	6.00	Lloyds Bank	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
		*Mount Credit Corp	6.25		

FT GOLD MINES INDEX

	Dec 13	% chg since 29/12/95	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1828.50	-4.4	49.84	100.00	1.66	-	2520.73	1800.06
■ **Regional Indices**								
Africa (14)	2133.03	-14.8	11.75	23.57	3.67	30.87	3553.86	2133.03
Australasia (6)	2070.27	-12.6	5.64	11.31	2.71	20.58	2927.34	2005.75
North America (12)	1714.03	+1.8	32.45	65.11	0.76	65.71	2186.39	1648.45

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LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
90	F.P.	14.1	107½	100½	†Access Plus	100½xd		sb8.45	1.6	4.3	18.3
§70	F.P.	18.5	84½	72½	Advanced Power	79½	-½	-	-	-	-
*	F.P.	10.2	100	100	†Archer Dedicated	100		Z0.8	-	1.0	66.6
§130	F.P.	32.3	162½	130	Britt Allcroft	137½	-9	L1.6	3.0	1.5	24.4
§138	F.P.	53.0	169½	152½	Car Group	169½	+1	W3.9	2.6	2.9	16.5
§200	F.P.	39.5	246	227½	Cadcentre	237½	+8	L2.4	2.5	1.3	28.9
5	F.P.	6.25	6¾	5¾	†Charterhse Comms	6¼		W-	-	-	14.0
§115	F.P.	4.27	122½	120½	†Dawn Til Dusk	121½		-	-	-	10.3
§275	F.P.	72.3	327½	272½	Druid Grp	316	+1½	-	-	-	34.4
§92	F.P.	9.26	97½	97½	Exeter Inv	97½		W3.5	1.6	4.5	17.4
-	F.P.	61.5	623¾	612	Finsbury Int Hedge	615¼		-	-	-	-
115	F.P.	13.9	130½	122½	†Future Int Tele	125		-	-	-	-
*	F.P.	89.2	133	117½	Grantchester	127½	-1½	-	-	-	-
§50	F.P.	5.81	52½	47½	†Kern River	50½		-	-	-	-
§170	F.P.	58.1	184½	172½	Kier Group	183½	-1	6.5	2.0	4.4	11.8
§135	F.P.	25.8	142½	130½	Oliver Ashworth	131½		F4.6	1.9	4.4	11.7
-	F.P.	30.3	51½	42½	†Oxford Biomedica	47½		-	-	-	-
§65	F.P.	16.8	78½	65½	Parkwood	78½	+2	R1.82	1.3	2.9	26.3
125	F.P.	21.9	135½	122½	Provend	126½		RW3.6	2.4	3.6	12.9
§90	F.P.	16.0	100½	94½	†Recycling Servs	99½		W3.2	-	4.1	-
§160	F.P.	60.5	175½	160	SDX Business Sys	170½	-2	L2.2	2.8	1.6	23.5
§125	F.P.	33.6	139½	130½	Scot Highland Ht	138		R3.0	2.4	2.7	13.8
§	F.P.	9.06	112½	110½	Second St David	110½		-	-	-	-
§	F.P.	1.02	10½	9½	Do Residual Cap	9½		-	-	-	-
§	F.P.	10.9	185	183	Do Zero Div Prf	184½	+¼	-	-	-	-
§180	F.P.	16.7	226½	202	Sample Cochrane	214½	-½	-	-	-	20.1
-	F.P.	8.59	179½	170½	†Yeoman Group	170½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

UK GILTS PRICES

Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Shorts" (Lives up to Five Years)						
Treas 13¼pc 1997‡‡	100⅞	-.1	1,290	Jy22 Ja22	11.7	1302
Exch 10½pc 1997	100⅞	-.1	3,700	Au21 Fe21	12.8	1253
Treas Cnv 7pc 1997‡‡	100⅛	—	1,988	Fe6 Au6	26.7	4491
Treas 8¾pc 1997‡‡	101⅞	—	6,550	Mr1 Se1	21.8	1341
Exch 15pc 1997	107⅛	-.1	890	Oc27 Oc27	17.10	1269
Exch 9¾pc 1998	103⅛	—	3,550	Jy19 Ja19	10.7	1273
Treas 7¼pc 1998‡‡	100⅞	0.1	8,150	Se30 Mr30	19.9	1788
Treas 15½pc '98‡‡	114⅞	-.1	935	Mr30 Se30	19.9	1306
Exch 12pc 1998	108⅛	-.1	3,909	My20 Nv20	11.11	1259
Treas 9½pc 1999‡‡	104⅞	-.1	1,900	Jy15 Ja15	4.7	1347
Treas Flt Rate 1999	100⅛	0.1	5,700	MrJeSeDe	2.12	4945
Exch 12¼pc 1999	111⅛	0.1	3,050	Se26 Mr26	18.9	1264
Treas 10½pc 1999	107⅞	0.1	1,252	Nv19 My19	8.11	1288
Treas 6pc 1999‡‡	97⅞	0.2	6,950	Fe10 Au10	1.8	3635
Conversion 10¼pc 1999	108½	0.2	1,798	My22 Nv22	13.11	1242
Conv 9pc 2000‡‡	105½	0.2	5,358	Se3 Mr3	22.8	1244
Treas 13pc 2000	118⅛	0.2	3,171	Ja14 Jy14	4.7	1289
Treas 14pc 1998-1	109⅞	-.1	870	Nv22 My22	13.11	1305
Treas 8pc 2000‡‡	102⅞	0.2	9,800	Je7 De7	28.11	4946
Treas Flt Rate 2001	*100⅛*	*0.1*	*3,000*	*8DcJaApJy*	*7.10*	-
Treas 10pc 2001	109⅞	0.3	4,406	Au26 Fe26	15.8	1280
Treas 7pc 2001‡‡	98⅞	0.4	12,750	My6 Nv6	28.10	3031
Five to Fifteen Years						
Treas 7pc 2002‡‡	98⅞	0.2	2,500	De7 Je7	-	-
Treas 9¾pc 2002	110⅞	0.3	6,527	Fe27 Au27	15.8	1349
Treas 8pc 2003‡‡	102⅞	0.3	8,600	Je10 De10	28.11	2010
Treas 10pc 2003	113⅛	0.3	2,503	Mr8 Se8	2.9	1261
Treas 11¾pc 2001-4	115⅞	0.2	1,620	Se19 Mr19	10.9	1290
Funding 3½pc 1999-4	83⅛	0.2	543	Ja14 Jy14	4.7	1274
Conversion 9½pc 2004	111⅞	0.3	3,412	Oc25 Oc25	16.10	1246
Treas 6¾pc 2004‡‡	95½	0.3	6,500	My26 Nv26	15.11	3541
Conv 9½pc 2005	111⅛	0.2	4,842	Oc18 Ap18	9.10	1247
Treas 12½pc 2003-5	126⅞	0.2	2,200	My21 Nv21	12.11	1295
Treas 8½pc 2005‡‡	105⅞	0.3	10,373	Je7 De7	28.11	4946
Treas 7½pc 2006‡‡	99⅛	0.3	11,700	Je7 De7	28.11	1146
Treas 7¾pc 2006‡‡	100⅞	0.3	3,900	Mr8 Se8	2.9	2300
Treas 8pc 2002-6‡‡	101⅛	0.1	2,050	Ap5 Oc5	26.9	1334
Treas 11¾pc 2003-7	120⅛	0.2	3,150	Jy22 Ja22	11.7	1289
Treas 8½pc 2007‡‡	106	0.3	7,397	Ja16 Jy16	5.7	1339
Treas 9pc 2008‡‡	109⅞	0.3	5,621	Ap13 Oc13	3.10	1343
Treas 8pc 2009	101⅞	0.2	3,450	Mr25 Se25	16.9	1336
Treas 6 1/4pc 2010‡‡	87⅛	0.5	4,750	Mr25 Nv25	14.11	4632
Conv 9pc Ln 2011‡‡	110½	0.5	5,273	Jy12 Ja12	3.7	1245
Over Fifteen Years						
Treas 9pc 2012‡‡	110⅞	0.6	5,360	Fe6 Au6	26.7	1701
Treas 5½pc 2008-12‡‡	80⅞	—	1,000	Mr10 Se10	2.9	1330
Treas 8pc 2013‡‡	102	0.6	6,100	Mr27 Se27	18.9	2229
Treas 7¾pc 2012-15‡‡	99⅛	0.4	800	Jy26 Ja26	17.7	1332
Treas 8pc 2015‡‡	102⅞	0.6	12,500	Je7 De7	28.11	4992
Treas 8¾pc 2017‡‡	109⅞	0.6	7,550	Fe25 Au25	15.8	1982
Exch 12pc 2013-17	142⅛	—	1,000	Ja12 De12	3.12	1260
Treas 8pc 2021‡‡	102⅛	0.4	9,000	Je7 De7	28.11	-
Undated						
Consols 4pc	49⅛	-.2	359	Fe1 Au1	23.7	1239
War Loan 3½pc‡‡	44⅞	—	1,909	Je1 De1	18.11	1352
Conv 3½pc '61 Aft	61⅞	-2.4	115	Oc1 Oc1	20.9	1243
Treas 3pc '66 Aft	36⅞	-1.8	56	Ap5 Oc5	26.9	1324
Consols 2½pc	31⅞	-.5	276	5DcApJyOc	28.9	1236
Treas. 2½pc	31⅛	-3.1	475	Ap1 Oc1	20.9	1316
Index-Linked (b)						
4⅝pc '98‡‡ (135.6)	113⅞	—	800	Ap27 Oc27	17.10	1753
2½pc '01 (78.3)	184⅞	0.1	2,150	Mr24 Se24	16.9	1316
2½pc '03 (78.8)	180⅞	0.1	2,150	My20 Nv20	11.11	1317
4⅜pc '04‡‡ (135.6)	117⅞	—	1,150	Ap21 Oc21	10.10	1255
2pc '06 (69.5)	190¼	—	2,250	Ja19 Jy19	10.7	1314
2½pc '09 (78.8)	171	0.1	2,400	My20 Nv20	11.11	1318
2½pc '11 (74.6)	176⅞	—	2,850	Fe23 Au23	14.8	1319
2½pc '13 (89.2)	145⅞	—	3,400	Fe16 Au16	7.8	1320
2½pc '16 (81.6)	154⅞	—	3,400	Ja26 Jy26	17.7	1321
2½pc '20 (83.0)	148⅛	—	3,350	Ap16 Oc16	7.10	1322
2½pc '24‡‡ (97.7)	123⅛	—	3,250	Ja17 Jy17	8.7	1323
4⅛pc '30‡‡ (135.1)	120⅞	-.2	1,300	Ja16 Jy22	11.7	1134

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for March 1996: 151.5 and for October 1996: 153.8.

Other Fixed Interest

Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Asian Dev 10¼pc 2009	118	-.5	100	Mr24 Se24	3'93	-
B'ham 11½pc 2012	127½	-1.5	45	My15 Nv15	15.10	1837
Leeds 13½pc 2006	134½	-.7	46	Ap1 Oc1	9.9	3146
Liverpool 3½pc Irred	41xd	-2.4	5	1ApJyOcJa	2.12	-
LCC 3pc '20 Aft	35	-2.8	29	1MrJeSeDe	1.11	-
Manchester 11½pc 2007	123½	-.8	6	Ap25 Oc25	30.9	3275
Met. Wtr. 3pc 'B'	80	—	25	Mr1 Se1	28.8	3361
N'wide Anglia 3⅞pc 2021	148⅞	-.5	60	Ja30 Jy30	17.6	3465
4⅛pc IL 2024	139⅞	-.5	50	Au23 Fe23	15.7	-
Utd Mex States 16½pc 2008	135	—	50	Mr1 Se1	8'93	-

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis.

STOCK INDICES

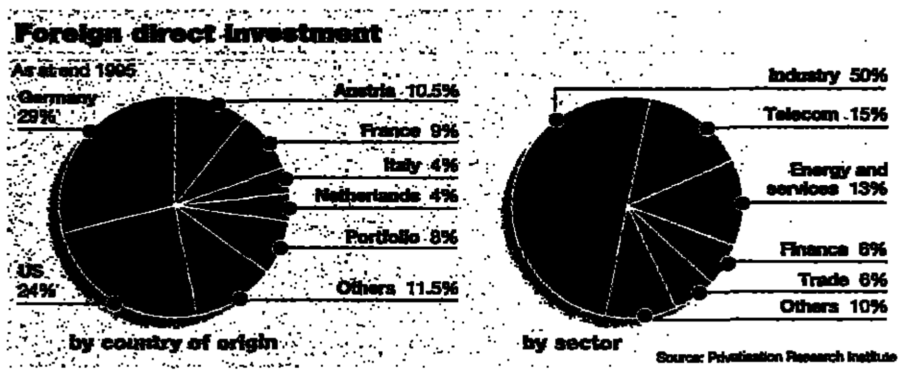
	Dec 13	Dec 12	Dec 11	Dec 10	Dec 9	1996 High	1996 Low	Since comp. High	Since comp. Low
FTSE 100	3972.40	3990.70	3982.50	4035.70	4011.60	4073.10	3632.30	4073.10	986.90
FTSE 250	4358.30	4379.50	4366.80	4411.90	4385.00	4568.60	4015.30	4568.60	1379.40
FTSE 250 ex IT	4398.00	4417.80	4404.40	4448.20	4421.80	4607.40	4024.40	4607.40	1378.30
FTSE 350	1973.90	1983.10	1978.70	2003.90	1991.80	2022.10	1816.60	2022.10	664.50
FTSE SmallCap	2128.39	2138.67	2137.42	2144.89	2137.44	2244.36	1954.06	2244.36	1363.79
FTSE SmallCap ex IT	2129.51	2137.70	2138.35	2141.35	2135.42	2246.94	1269.87	2246.94	1269.87
FTSE All-Share	1946.17	1955.25	1951.14	1974.62	1963.13	1994.54	1791.95	1994.54	61.92
FTSE Fledgling	1203.18	1207.48	1208.35	1210.60	1205.52	1279.05	1108.94	1279.05	31.14
FTSE Eurotrack 100	1832.24	1855.66	1854.05	1877.65	1869.66	1899.49	1504.40	1899.49	900.45
FTSE Eurotrack 200	1879.95	1900.22	1896.59	1919.80	1907.05	1940.43	1584.49	1940.43	938.82
FT 30	2738.30	2755.70	2751.70	2782.90	2772.80	2885.20	2668.80	2885.20	49.40
FT Govt Securities	93.71	93.73	94.08	94.50	94.15	96.34	91.57	127.40	49.18
FT Fixed Interest	115.94	116.53	116.41	116.54	117.05	117.82	110.60	133.87	50.53
FT Gold Mines	1828.50	1849.33	1850.97	1900.28	1875.80	2520.73	1800.06	2520.73	922.16

Hungary

Accelerated moves to a market economy have put the country firmly on the fast track, report **Virginia Marsh** and **Kevin Done**

Tough reforms bring rewards

Castle Hill, Budapest: the capital is at the centre of Hungary's drive to increase its share of tourism in central Europe



For a long time now, the headline figures – the high inflation, large foreign debt and the sluggish growth – have obscured the progress Hungary has made in transforming its once rigid, centrally-planned economy into one of the most privatised and rapidly-evolving in Europe.

Although there is still some way to go to fulfil Maastricht criteria and to close the gap in gross domestic product with even the poorer European Union members, the question is no longer whether Hungary will join an enlarged Nato or EU but when, and what kind of member it will be.

The transformation to a market economy is all but complete. Hungary's entry in May into the Organisation for Economic Co-operation and Development which groups the world's most industrialised nations, was the culmination of a year of concerted reforms by the Socialist-led government after a decade of more gradual market-led changes.

Following a shaky start by the former communists who returned to power in mid-1994, an austerity package in March 1995 slashed government spending and stimulated exports through devaluation of an artificially strong currency. This set in train rapid improvement in the current account and debt positions and reassured nervous foreign investors, who, under the Socialists' right-wing predecessors, had committed more capital to Hungary than to any other former East bloc state.

The measures were accompanied by fast privatisation – including the sale of utilities and once-troubled banks that just a few years earlier had required huge bail-outs to keep them afloat. While energy sector privatisation has been overshadowed by regulatory problems, bank privatisation and the entry of foreign banks have led to fierce competition in a sector that looks set to introduce technology which will leapfrog that used by many western banks.

These achievements led Standard & Poor's and other ratings agencies to raise Hungary's sovereign debt to investment grade, enabling the country to renegotiate some foreign borrowings on more favourable terms and encouraging more companies to tap international capital markets. The state had already begun to repay some loans in advance, partly from last year's record privatisation revenues. By September, net foreign debt had tumbled to $13.2bn from $22bn in June 1995.

Improving economic prospects – GDP is forecast to rise 2-3 per cent in 1997 – have fuelled a spectacular run on the Budapest Stock Exchange, one of the world's best performing markets this year. The rally has been led by newly-privatised companies like Richter Gedeon, a pharmaceuticals manufacturer, vindicating the government's decision to float some blue chip enterprises.

Privatisation, however, has mainly involved selling companies to western investors for cash. Mr Andras Inotai, an economist who heads the prime minister's taskforce on EU integration, says the presence of many multinationals in Hungary is of enormous importance for efforts to join the EU.

"Many western companies are already working here to EU standards, training our people to do so too. We hope they will also lobby for Hungary in Brussels," he says. "Their activities are more effective than anything the government can do from the top down."

Another consequence of restructuring and comparatively high foreign investment, he says, is that two thirds of exports to the EU are technology intensive, a higher share than for the three other Visegrad states – Poland, the Czech Republic and Slovakia – or Slovenia, while the proportion of sensitive commodity goods such as steel and chemicals is the lowest among the frontrunners for membership.

While determined to be in the first wave of enlargement, Hungary – as part of efforts to improve relations with Slovakia and Romania, its historic foes – has been careful to emphasise that it is in its interests for its neighbours also to join.

"I have already asked EU and Nato members not to make statements on who will be first and who will be left out. I don't like public campaigns on such issues," says Mr Gyula Horn, Socialist prime minister. "We are all in a preparatory stage and on the basis of these preparations the EU and Nato – not we – will decide."

With decisions on Nato's first former Warsaw Pact members expected next year, however, Hungary has worked hard to strengthen links with the alliance and to resolve differences with neighbours – a condition of entry.

In September, after years of often tense negotiations, it signed a bilateral treaty with Romania, similar to the one it agreed with Slovakia in March 1995. For the past year, it has hosted Nato troops for the first time by providing a large logistical centre for the tens of thousands of mainly US troops moving in and out of former Yugoslavia as part of Ifor.

Many of the tasks that remain as the country prepares for European integration are similar to those faced by the EU's present members.

The public sector requires further streamlining, pension reforms must now be finalised and implemented and, although Mr Horn says the black economy is no longer increasing in size, greater determination is needed to cut bureaucracy and to fight corruption and organised crime.

The prime minister also pledges faster reforms for the healthcare system. Overspending by the two funds that manage state pensions and health has imposed a heavy burden on a central budget that would otherwise have recorded a smaller shortfall than targeted.

"Health is a national scandal in this country. Expenditure is relatively high and standards are rotten," says a senior western official. "But I have grave doubts as to whether fundamental progress is being made."

Analysts say this is especially disappointing, given the government's 72 per cent of parliamentary seats.

"The problem is that people think all the sacrifices were made under Lajos Bokros [the former finance minister who devised the austerity programme] and that from now on things will only get better. This is extremely dangerous," says Mr Laszlo Csaba, a senior analyst at Kopint-Datorg, a Budapest think-tank. "It is very rare for a government to have such a large majority and a split opposition. This is a unique opportunity to make radical social security reforms but there is not the vision or courage. Bokros would have done it."

Mr Bokros, who stepped down in February, is one of 11 ministers to have left the cabinet in the past two and a half years, many of them Socialists unhappy at the austerity measures. However, the Free Democrats, the junior coalition partners, and an increasing number of Socialists, blame the rapid turnover on Mr Horn.

"The prime minister's political style is to let others take the heat," says a senior diplomat. "He does not build a body of convinced opinion behind him but rather takes decisions himself. This is causing clear discontent."

Despite the predictions it would not last, the coalition has held together, helped by the inability of the opposition parties to present a credible and united centre-right alternative.

"There are long discussions in our party as to whether it is worth being in the coalition or not," says Mr Balint Magyar, education minister and a leading Free Democrat. "But, in fact, if you look at our programme really a lot of it has been fulfilled." He singles out the reduction in the share of GDP redistributed by the state budget from 61 to 48 per cent in three years as a "fantastic" achievement accomplished with remarkably little popular protest.

As Mr Csaba points out: "In France, Germany and Italy, far smaller adjustments have produced much greater protests. This is proof that Hungarians don't believe serious political or economic alternatives exist."

■ **Economy:** by Kevin Done and Virginia Marsh

Price to pay for a balanced economy

Harsh austerity measures are setting up a sustainable recovery

After pulling back from the edge of the precipice in early 1995, Hungary has made significant progress in stabilising its economy during the past 21 months.

It appears to have entered a virtuous circle of falling interest rates, deficits and debt levels, which are creating the conditions for a sustainable recovery in economic growth next year allied with a further reduction in inflation.

The tough austerity package devised early last year by Mr Lajos Bokros, the former finance minister and Mr György Suranyi, president of the National Bank of Hungary, has inflicted considerable pain with a steep fall in real incomes and shrinking domestic consumption.

The benefits have become apparent, however, in the sharp reduction in the alarming twin deficits in the state budget and the current account, which were previously rising out of control and had reached a critical point by early 1995.

In spring last year the government finally decided to act. It cut back spending, increased taxes, devalued the currency by an immediate 9 per cent and instituted a so-called crawling peg exchange rate regime with fixed further monthly devaluations, and imposed an 8 per cent import surcharge in an attempt to curb both deficits drastically.

It accelerated the privatisation programme and targeted big cuts at expenditure on social welfare, and public sector wages and employment.

The measures have been accompanied by tight fiscal and monetary policies, and have resulted in substantial declines in both the trade (and therefore in the current account) and budget deficits. The package has avoided pushing the economy into outright recession thanks chiefly to the strength of the country's export performance.

The International Monetary Fund set its seal of approval on the government's current economic course in March by granting a new $387m, 23-month stand-by credit.

The improvement in the country's economic management has also been reflected in its rising status in the international capital markets. Two of the leading international credit rating agencies IBCA and Standard & Poor's have raised Hungary's debt into the investment grade category this year at BBB-, helping it to reduce its borrowing costs. Similar action is expected shortly by Moody's, the US credit rating agency.

The recent S&P report has also highlighted the stark challenges remaining, however. Hungary's credit rating was still constrained, it said, by the need to:

- achieve further cuts in the size of both the fiscal deficit and the public sector;
- reduce the still high general government debt burden, estimated at 85 per cent of GDP (on a consolidated basis) in 1996;
- implement additional pension and health systems reforms (these are among the items being most closely monitored by the IMF);
- lower inflation and interest rates further and generate faster economic growth.

While accepting the tasks that lie ahead, Mr Peter Medgyessy, the low-key finance minister who took over from the combative Mr Bokros in spring this year, insisted that "1996 has been an excellent year for the balance of the economy".

The current account deficit had been reduced from $3.9bn in 1994 to $2.5bn last year and to between $1.6bn and $1.8bn this year, he said. The government budget deficit had been reduced as a share of GDP from 8.2 per cent two years ago to 6.5 per cent in 1995 and to around 4 per cent this year and Mr Medgyessy forecast a further reduction next year.

> The increase in exports in both 1995 and 1996 helped to avoid a drop into recession

Unit labour costs had been reduced "drastically" in 1995 and had fallen again in 1996 improving Hungary's international competitiveness. According to the European Bank for Reconstruction and Development (EBRD), unit labour costs in manufacturing (in US dollars) fell by 8.7 per cent in 1995 and by 10.3 per cent in the first quarter of 1996.

The resulting increase in exports of between 8 and 10 per cent in both 1995 and 1996 had helped to avoid a drop into recession. After expanding by 2.9 per cent in 1994, the rate of growth in gross domestic product slowed to 1.5 per cent last year and is forecast to be around 1 per cent in 1996.

Mr Medgyessy said that the corner had been turned in 1996, however, and he forecast that economic growth would recover to between 2 and 3 per cent in 1997 supported by a further rise of between 8 and 10 per cent in exports with imports growing by only 4 to 6 per cent. The current account deficit should be reduced again to around $1.5bn.

"Society has had to pay a high price for all the achievements in balancing the economy," said Mr Medgyessy. Domestic consumption had dropped by 8 per cent in two years – by 5 per cent in 1995 and by 3 per cent in 1996 – real wages had dropped by 12 per cent in 1995 and by a further 3 to 4 per cent in 1996. The real value of pensions had dropped by 25 per cent in two years, a decline "unparalleled" in east Europe.

According to Mr Suranyi, president of the Hungarian central bank and one of the architects of last year's austerity package "the issue now is how fast the economy can take off".

He believes that the credibility of the central bank's monetary policy with its key aim of reducing inflation has been regained during the past year. The crawling peg exchange rate mechanism under which the forint is currently devalued at 1.2 per cent a month had improved the operating environment for enterprises and had made it more predictable.

The rate of inflation, which had reached a peak of 31 per cent year-on-year in July 1995 had been reduced to 21 per cent by October this year. Mr Suranyi forecast that the year-on-year rate would be close to 20 per cent by December and would fall further to 17 per cent by the end of 1997.

"Each year we expect a gradual fall of 4 to 5 per cent, but that is an ambitious target. In two to three years we could get to single figure inflation, which is badly needed."

The dramatic fluctuations in the economy during the past three years have tended to obscure the more fundamental structural changes that are under way, which have helped to put Hungary at the forefront of the fast-track reform countries in east Europe.

It has attracted far more foreign direct investment than any of its neighbours in central and east Europe with per capita inflows between 1989 and 1995 of $1,113, more than double the level of the second placed Czech Republic at $532. According to the EBRD, cumulative inflows into Hungary amounted to $11.5bn in the period and accounted for more than a third of the total $30.2bn invested in the whole of east Europe and the former Soviet Union.

At the micro level the impact of this wave of investment is being felt in the growing dynamism of the export sector. Professor Andras Inotai, general director of the Institute for World Economics of the Hungarian Academy of Sciences, says that more than 70 per cent of the exports of manufactured goods from Hungary now come from partially or wholly foreign-owned companies, which are both drawing the country into a European production network and using it as a regional export base.

György Suranyi: joint architect of the austerity package

Hungary's privatisation strategy has concentrated on attracting strategic, core (and therefore usually foreign) investors – in preference to the voucher mass privatisation schemes favoured by countries such as the Czech Republic.

A recent study by Moody's suggested that with a substantial foreign presence in a significant number of Hungarian enterprises "technological and managerial restructuring should occur faster than in other privatisation variants and result in lower comparative unit labour costs".

Promisingly for the future development of the Hungarian economy, recent gains in productivity were resulting not so much from workforce reductions as from improved technology, more highly skilled labour and from modern management and organisational techniques.

PROFILE Mol, national oil and gas group

The promise of change

Magyar Olaj-es Gazipari (Mol), the national oil and gas group, is Hungary's largest company and, with its network of gleaming red, white and green petrol stations dotted around the country, possibly also its best known.

In a country where multinationals already control a large part of the economy, Mol is one of a small group of leading companies that have been privatised through the capital markets and remain under Hungarian management control.

The company, whose activities range from exploration and production through to oil and gas wholesaling, refining and retail, is preparing for a secondary offering. The state is expected to offer up to a 20 per cent stake from its remaining 58.7 per cent holding in the spring. This follows the company's flotation last autumn in Hungary's largest ever equity offering – the international portion, for about 22 per cent, raised close to $180m.

The company's first months as a public company, however, were not the best. Third quarter results for 1995 published shortly after last November's offering were well below market expectations, eroding Mol's credibility with its new shareholders. And this year, the company, like others in the sector, has been hit by government delays in increasing energy prices.

Although the company's share price has risen from Ft1,100 ($8.10) at the time of the offering, closing at Ft 1,810 ($11.30) on December 6, it has underperformed the market. Analysts are now more bullish, praising efforts of top management to slim the company and transform its sprawling empire into a leaner, more modern corporation.

Mol reported operating profit of Ft13.6bn ($91m) for the first nine months of the year, up 98 per cent over the same period last year, on net sales of Ft332.8bn (using Hungarian accounting standards).

Mr Zoltan Mandoki, the company's 42-year-old chief executive, says Mol is in the final stages of drawing up what he prefers to call a "re-engineering" rather than restructuring plan.

"Implementation [of the plans] will be tough. The only permanent thing I can promise colleagues is change. There is bound to be opposition," he says. "We have to speed up integration of the company, to terminate duplication or even triplication of activities.

The company has already begun a cost-cutting exercise. By year-end staff levels will fall below 15,000, down from 23,000 five years ago, mainly through spinning off non-core activities.

Earnings from Mol's two refineries are also expected to improve in the medium term if, as expected, it forms a refining joint venture, most likely with one of the western companies active in local downstream operations.

Some in the industry say the company is too large for a small country like Hungary and are nervous about its monopoly positions. Like most other bankers, however, Mr Peter Kulloi, corporate finance director at Creditanstalt Securities in Budapest, says the government was right to float Mol as a group, reversing earlier plans to sell the company to a strategic partner or to break it up into smaller units.

"Mol is the only vertically integrated oil and gas company in the region. It has a real chance of becoming an important regional group," he says.

The company is due to open its first petrol station in Slovakia this month and already operates two in Romania and one in Ukraine. "These are our natural markets. We have the infrastructure and systems to work in them cheaply," says Mr Mandoki. "Our five year plan is to open 100-150 stations in the neighbouring countries."

In Hungary, after initially losing retail market share to western rivals like Shell and Austria's OMV, Mol is investing heavily in upgrading its petrol stations. It has more than 300, of which about half are the so-called Mol 2000 state-of-the-art stations, and the company has rebuilt its retail market share to over 35 per cent.

But like other energy companies in central and eastern Europe, Mol's future will be heavily influenced by Russia, its main supplier, despite efforts to diversify energy imports. Mol is close to agreeing with Croatia on the purchase of a stake in the Adria oil pipeline and has also recently completed a gas pipeline link with Austria. Mr Mandoki says Russian energy is likely to remain competitive for some time and defends a 20 year supply contract for 225bn cubic metres made through Panrusgaz, a controversial local joint venture established last year and owned 50:50 by Mol and Gazprom, the Russian gas giant.

Low domestic energy prices, however, are probably the greatest immediate problem for Mol's gas business. Mr Mandoki says the 18.8 per cent price rise from January will enable the company to make a profit on its overall gas business next year. But he is unhappy that Mol's locally-produced gas is still priced by regulators at below world levels and says the company will continue to lose on gas imports.

"We're satisfied that the company in general makes a profit but each unit has to be evaluated on its own," he says. "We cannot accept the situation [with pricing of domestic gas production] in the long term. It's not just a battle, this is a war."

Virginia Marsh

■ **Capital markets:** by Virginia Marsh

Funds await new flotations

Domestic investors are increasing, but there are still too few new offerings

Once the poor relation of central European bourses, the Budapest Stock Exchange has had a very successful 1996. The Bux index has more than doubled in dollar terms in the past 12 months – it closed at 3,715 on December 6, up from 1,529 at the end of 1995 – making Budapest one of the world's best performing markets this year.

"The original push came from foreign buyers. The Hungarians joined the bandwagon later," says Mr Andras Simor, head of Creditanstalt Securities in Budapest. "The early birds returned to the market a year ago when there were several big privatisations. This concentrated people's minds that this Hungary was different to the Hungary of a year earlier."

Although brokers estimate foreign investors still account for more than two-thirds of the market, Mr Simor says a fundamental change has begun this year on the domestic side due to the rapid growth of local institutional investors.

"There is now some Ft110bn-120bn in investment funds, three times more than two years ago. Over the same period, private pension funds have increased to about Ft20bn from virtually zero. This is very fast growth and at the same time the recent record of the BSE made everyone aware of the market's possibilities," he says.

The size of the market and once poor liquidity have improved, with listings in the last year of large local companies such as TVK and Borsodchem, the two main chemicals companies, and of Mol, the oil and gas conglomerate, which makes up more than a fifth of total market capitalisation of about $4.7bn *(see Profile)*. Mol is preparing a secondary offering due in the spring and the state may also sell off more of its stake in Richter Gedeon, the pharmaceuticals company, one of the BSE's star performers.

Next year's highlight could be the initial public offering of Matav, the telecommunications company, which is expected to go public within the next 18 months. Under Matav's privatisation agreement, Deutsche Telekom and Ameritech are committed to reducing their 67 per cent stake to a simple majority and, at present valuations, the sale of 17 per cent would net about $500m, making it the former East bloc's largest ever offering.

Mr Simor also believes more local companies will come to the market from 1998 onwards. Unlike other countries in the region, Hungary privatised most of its medium-sized and large companies through sales to strategic investors, rather than through voucher privatisation, depriving capital markets of many of the best candidates for listing.

"The small companies were left to the Hungarian buyers. But to build a small company into a public one, to change the structure and mentality, that takes years," he says.

Nevertheless, many fund managers express impatience at the relative lack of new offerings. "Hungary's success has been in transformation [of state companies] rather than in the growth of new ones," says a venture capitalist. "The emergence of interesting companies is not the norm yet. The country should have produced more by now – it's a disappointment."

He blames this in part on poor capital allocation. Although the macro-economic situation is improving, government spending has started to fall significantly and there is increasing competition in the banking sector for the best corporate clients, the country has the region's largest state debt per capita, high taxes, high inflation and interest rates, and low GDP growth. He says the market is no longer cheap due to the recent sharp rises and fears international institutional investors will switch their attention to other countries in the region with higher growth rates.

Although the BSE should be boosted by greater domestic participation, it will continue to face competition from other markets that trade Hungarian stocks such as London's SEAQ adds Ms Frances Cloud, central European equity analyst at Nomura in London. She says the growing number of US investors in Hungarian stocks, in particular, favour SEAQ because of its greater liquidity and better market execution.

A new securities act that took three years to prepare is due to come in from January and will improve regulation, bringing local practices more in line with international norms. It includes tighter rules on insider trading and on disclosure requirements and provides for a dematerialised rather than paper-based system. But brokers say the act could have been better – it does not include a takeover code, for example – and that the exchange needs to improve its systems and lower its costs to be more competitive.

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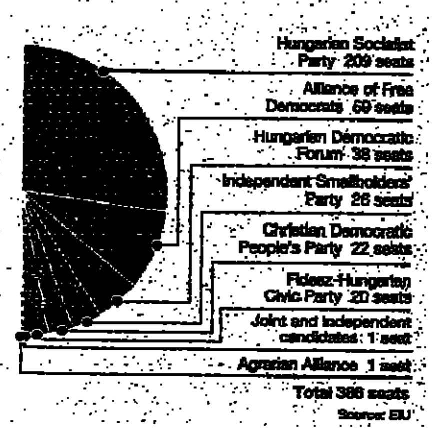
ection results 1994

	% of votes 1st round	% of seats 2nd round
ngarian Socialist Party	33.0	54.2
ance of Free Democrats	19.7	18.1
ngarian Democratic Forum	11.7	9.6
ependent Smallholders' Party	8.8	6.7
ristian Democratic People's Party	7.0	5.7
esz-Hungarian Civic Party	7.0	5.2
ngarian Workers' Party	3.2	0.0
public Party	2.6	0.0
rarian Alliance	2.1	0.3
ngarian Justice and Life Party	1.6	0.0
cial Democratic Party	1.0	0.0
ited Smallholders' Party	0.8	0.0
eral Civic Alliance (Entrepreneurs)	0.6	0.3
ers	0.9	0.0
tal	100.0	100.0



Source: EIU

Gyula Horn: sticking to priorities

Politics: by Virginia Marsh

Loose alliances

ie opposition is o fragmented to se a serious allenge to the vernment

many governing parties oversee average real ge cuts of about 16 per t in two years and still d opinion polls.

ut the Hungarian Socialist Party, the reformed communists, looks to have a d chance of winning re-ction in 18 months time, n though it has slashed nding on welfare, overlled education and public ninistration at the loss of s of thousands of jobs and plemented a draconian d deeply unpopular austity package.

The Socialists, which lead two-party coalition with liberal Alliance of Free mocrats, have lost ground ce winning one third of es and 54 per cent of parment in the last general ction two and a half years o. But recent polls give party around 20 per cent, ough to put it in the lead ong with two opposition oups on similar ratings.

Opposition parties, however, especially Fidesz, a forer liberal youth movement at has now positioned self on the centre-right, ve been boosted this tumn by the "Tocsik fair" a highly-damaging andal over illegal payents to a consultant by PV, the state privatisation ency.

In a country where many spect officials of corrupon, the affair escalated into national scandal following estions in parliament from Fidesz MP. The agency's tire board was sacked but ressure from the press and e opposition continued, rcing the resignation in ctober of the minister sponsible for privatisation, Ir Tamas Suchman, a proege of Mr Gyula Horn, the 64-year-old prime minister.

"The public perception that politicians are corrupt has been given a real focus," says a western diplomat. "There is a perception that the case is just the tip of the iceburg. It has hurt the prime minister as it involves people identified as being close to him."

Mr Suchman was the ninth cabinet member to leave the government – all but one of them Socialist appointees – and he has since been joined on the backbenches by two more ministers.

As well as the APV board, this autumn has also seen the departure, at Mr Horn's insistence, of two senior central bank officials implicated in a loss-making forex contract, the head of the tax office, the country's top four police chiefs and the head of the state railways.

Mr Horn, a one-time senior communist official, blames the high turnover in his cabinet on the difficulties of reform. "The ministers left as they couldn't associate with the problems of stablisation," he claims. "But there is nothing more important than that so it was better for them to leave. Tough measures are needed. What can I do about that? We have to stick to our priorities."

However, the rapid turnover in top officials has increased rumblings within the Socialist party and within the Free Democrats at what is described as Mr Horn's "autocratic" governing style.

"This is a man who doesn't like to have smart guys around him but instead chooses those that are loyal to him. This is a terrible thing," says a senior politician. "They prove incapable of doing the job and have to go and we are faced with yet more changes. Without the prime minister the government would be much better."

Despite clear discontent there are not yet obvious challengers to Mr Horn's leadership from within the Socialist party, partly because the prime minister has proved so adept at sidelining potential rivals. This is also because elections are looming and because Mr Horn seems to be the only figure upon whom the Socialist party's many factions agree.

The Socialists' internal differences and the often strained relations between the two coalition parties, however, are nothing compared with the fragmentation in the opposition.

The opposition, which now comprises five parliamentary parties, got off to a good start by fielding joint candidates in many constituencies in local elections held in late 1994. They performed well, winning many large towns, just six months after the Socialists' landslide victory in the general elections.

> "Those able to win moderate, centrist voters will win the election"

"Our party is doing well in the polls," says Mr Jozsef Szajer, head of Fidesz' parliamentary group. "But our goal is not just to increase our mandates but to create a centre-right force able to replace the present two-party government.

"Those able to win moderate, centrist voters will win the election," he says, adding that up to 85 per cent of the electorate are "floating voters" without strong allegiance to any party.

However, efforts to build a more permanent alliance since the local elections have not been successful. They have been further complicated this year by a split in the Democratic Forum (MDF), the party which governed for four years until 1994, which has moved sharply to the right. This prompted the more moderate, intellectual wing to leave to form the Democratic People's Party – a group that appears unlikely to win enough votes to enter the next parliament. Similar tensions exist within the Christian Democrats. Moderates favour greater co-operation with Fidesz but others are closer to the MDF and Mr Jozsef Torgyan's Smallholders party.

Along with Fidesz, the Smallholders, a populist, anti-foreign party, has been the main beneficiary of the erosion in support for the two governing parties.

"Public misery [caused by the austerity programme] is feeding the ground of the more extremist parties," says Mr Geza Jeszenszky, foreign minister in the former MDF government and a founder of the People's Party. "Desperate people represent an electoral danger for the centrist parties."

Analysts say one of the oppositions' biggest problems is that the government, although led by former communists, has adopted right-wing economic policies.

"The government is generally delivering on the economy," says a diplomat. "This has left the opposition flailing around. It does not have a stance from which to criticise economic policy."

The other complicating factor in building future alliances is the great bitterness and personal animosity between the Free Democrats and Fidesz, one-time liberal allies in the centre of the political spectrum. Some Fidesz MPs say the party would rather work with the Socialists or the Smallholders than with the "unreliable" Free Democrats. This is deeply frustrating for those Free Democrats unhappy in the coalition with the Socialists.

Automotive industry: by Kevin Done

Target for investment

The industry is recovering and continuing to attract foreign carmakers

Demand for new cars, which collapsed last year in the wake of the Hungarian government's economic austerity package, is on the increase again. After continuing to fall steeply in the early months of the year, sales have begun to grow since early summer.

Leading carmakers are confident that the improvement will be sustained next year, although forecast new car sales in 1997 of around 76,000 units will still be well below the 1994 peak of 90,000. Sales this year have risen marginally to 70,000 following the 24 per cent decline to 68,800 in 1995, which reflected the sharp drop in real incomes.

Domestic sales are being supported by increasingly sophisticated automotive finance activities – several carmakers including General Motors, Ford and Daewoo are establishing their own banks – and exports of both cars and components are rising rapidly to become one of the key elements in the restructuring of Hungarian industry.

After playing only a minor role in the car industry during the communist era – though the country was east Europe's biggest busmaker through Ikarus – Hungary has become one of the prime targets in the region for investment by carmakers from the US, Europe and Japan since the collapse of communism. Foreign direct investment in the sector since 1990 now exceeds $1bn.

The initial wave has been led by General Motors of the US, Suzuki of Japan and the Volkswagen group of Germany. But Ford, the US vehicle maker, has also invested in components operations in Hungary as have several leading western and Japanese automotive components suppliers.

After struggling in its early years, Suzuki is now making a success of its first production operation in east Europe with output at its plant at Esztergom in northern Hungary running close to full capacity in 1996. Further expansion is under consideration for the end of the decade.

Magyar Suzuki, which began production in October 1992, will achieve its first profit this year of between Ft500m and Ft700m on a turnover of around Ft54bn up from Ft36.8bn in 1995 according to Mr Frigyes Banki, external affairs director. The Japanese carmaker increased its stake to 80 per cent earlier this year.

Around $250m has been invested to date with production rising from 900 cars in 1992 to 36,100 last year and around 51,000 in 1996, helped by rapidly growing exports.

Hungary is the Japanese carmaker's only production source for its range of Swift small hatchback and saloon cars for supply to west European markets. Exports have risen from 3,290 in 1994 to 23,900 last year and around 37,000 in 1996 and account now for close to 75 per cent of output.

With a workforce of 1,400, the plant has a nominal two-shift capacity for producing around 50,000 cars a year, although output of around 55,000 is planned for 1997 including 5,000 under the Subaru badge for Fuji Heavy Industry.

While Suzuki and Opel dominate the Hungarian market – Opel has been market leader in each of the five years since 1992 with a share of more than 20 per cent and Suzuki now has 19 per cent – there have been big changes among the smaller players. Daewoo of South Korea, which is now producing cars in both Poland and Romania, has captured more than 9 per cent of new car sales this year compared with zero in 1994, while Lada of Russia has suffered a collapse in its market share from 16 per cent in 1994 to only 4 per cent this year.

General Motors of the US, which sells under the Opel and Vauxhall brands in Europe, is making the country one of its key manufacturing locations for both engines and engine components, while also operating a low volume car assembly facility. The original investment of DM250m announced in 1990 has since almost tripled to more than DM700m.

The GM engine plant, located in a customs free zone at Szentgotthard in western Hungary close to the border with Austria, now has a capacity to produce 460,000 1.4 and 1.6 litre, 16-valve engines a year working round-the-clock on three shifts. Production has risen from 20,500 in 1992 to close to 310,000 this year and is expected to total 400,000 in 1997, virtually all for export.

This autumn GM commissioned a new plant to produce cylinder heads (both machining and assembly) with a three-shift capacity of up to 460,000 units a year, a level that should be reached in 1998.

In less than five years, Opel Hungary has become the fourth largest company in the country based on net sales, one of the top three exporters and first in terms of profitability. (It currently enjoys a 10-year tax holiday as one of the incentives for its original investment). It will have a direct workforce of close to 1,000 by the end of 1997 and a further 2,200 are employed in its 63-strong franchised dealer network.

The small volume car plant will assemble this year around 11,500 Opel Astras from CKD (completely knocked down) kits supplied by train from Opel's plant in Bochum, Germany. Production is planned to continue at least to the end of 1998, but its future is then in doubt, as Hungarian import tariffs fall.

One way forward could be to follow Audi and to use the plant for the assembly of low volume specialist cars. From 1998, Audi is planning to carry out the final assembly of its TT coupé and roadster models at its plant at Győr in north-west Hungary.

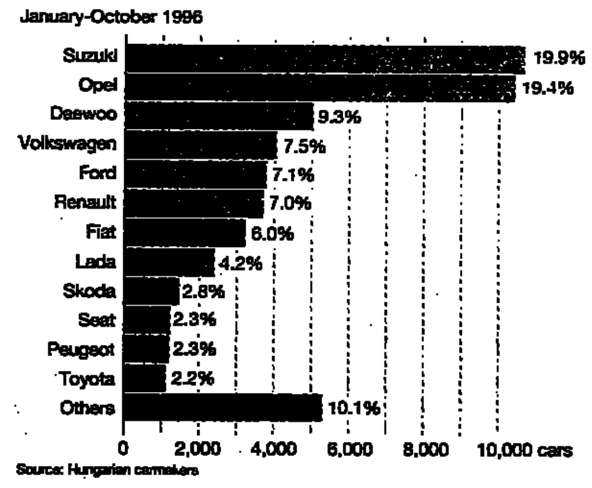
The painted body shells will be produced at Audi's plant at Ingolstadt, Germany, and will then be sent by rail to Győr for assembly. Production capacity has been set at 30,000 cars a year and the project will add 500 jobs in Hungary.

VW established its subsidiary Audi Hungaria Motor in 1993, initially solely as an engine plant to produce a new range of four cylinder, five valves per cylinder engines. In addition, Audi is moving the assembly of V6 engines and the manufacturing of V8 engines to Győr from Ingolstadt with total three-shift capacity being raised to around 3,500 engines a day or 800,000 a year. The Hungarian facility is expected to become Audi's sole engine plant by the late 1990s.

By the end of 1998, investment at the plant is planned to reach close to DM1bn and it will employ a workforce of 1,800 to 2,000 people.

Car market in Hungary by brand

January-October 1996



Source: Hungarian carmakers

Banking: by Kevin Done

Rapidly rolling back the state

Privatisation has dramatically improved the quantity and quality of services

The reduction of state ownership in banking has gone further in Hungary than in virtually any other country in central and east Europe. The private sector share is also higher than in several west European countries.

"There is criticism that we have gone too far, but we are carrying on," says Mr Istvan Abel, managing director for financial institutions at APV, the Hungarian privatisation and state holding company, which is planning further privatisation steps in 1997 to complete the process. "Within two years I don't see any dominant state ownership remaining in the banking sector."

The details of the tender for the sale of Kereskedelmi es Hitelbank, (K&H Bank), the Hungarian Credit and Commercial Bank, Hungary's third largest bank and the last of the big state-owned banks to be privatised, are due to be published by mid-January.

After long delays in the early 1990s, the pace has been hectic during the past 18 months. A year ago a majority stake in Budapest Bank was sold for $87m to GE Capital of the US, which acquired 27.4 per cent and operational control, and to the European Bank for Reconstruction and Development which acquired 32.4 per cent. GE Capital also has an option to take over the remaining state stake of 22.8 per cent.

By mid-1996 23 per cent of the shares of the largest Hungarian bank, OTP (Orszagos Takarekpenztar es Kereskedelmi), the national savings and commercial bank, had been sold to foreign institutional investors for $53m (with no single investor holding more than 2.5 per cent) with a further 5 per cent sold to OTP staff and 24 per cent to other domestic investors. Some 20 per cent is held by health and pension funds.

The state has retained 25 per cent plus one vote, but the privatisation agency is proposing a further reduction to 10 per cent. "I consider this a success of privatisation. The bank is profitable and the quality of its services is improving," says Mr Abel.

In mid-1996 the privatisation of Magyar Kulkereskedelmi Bank (MKB), the Hungarian Foreign Trade Bank, which began in 1994 was completed with Bayerische Landesbank raising its holding to 50.8 per cent. The EBRD also holds a 16.7 per cent stake and DEG of Germany 8.3 per cent.

In the latest move ABN Amro Bank of the Netherlands has won the tender to acquire a majority stake in Magyar Hitel Bank (MHB), the Hungarian Credit Bank, the fifth largest commercial bank in Hungary.

The Dutch bank is paying $89.23m to buy an 89.23 per cent stake and is also committed to making a substantial capital increase in MHB of around $100m. The transaction is one of the largest foreign investments in commercial banking in central and east Europe to date.

With the sale of MHB, around 85 per cent of the commercial banking sector will have been privatised with only K&H Bank, and some smaller banks still to be sold.

With its larger size and less advanced restructuring, K&H could prove more difficult to sell than MHB, but APV hopes to bring this bank too into the private sector during 1997.

The method of privatisation remains controversial with the existing management reluctant to cede full control to a foreign owner, but the agency is first planning the sale of a stake of at least 25 per cent plus one vote to a strategic investor. The buyer must acquire the stake through a purchase of shares and by injecting new capital into the bank.

The strategic investor must also be prepared to co-operate with institutional investors and APV plans to issue a second tender by March aimed at raising the bank's capital by a further $40m through an offer of shares to portfolio investors.

> The state owned banks rapidly lost ground to new private foreign banks

Until 1995 Hungary had pursued a policy of continuous recapialisation of the large state-owned commercial banks, but only at great cost to the taxpayer. Even with $3.5bn pumped into the sector, the banks remained weak, and with the economy deteriorating rapidly, the government finally opted instead to accelerate the privatisation of the banks.

With high levels of non-performing loans, the state-owned banks had rapidly lost ground to new private, joint venture and wholly-owned foreign banks. Of Hungary's 44 banks at the end of 1995, 26 were privately owned and 22 of these were majority foreign controlled and far better capitalised than their state competitors. They have made great and profitable inroads into the corporate segment and into upscale private banking.

"We had to accelerate privatisation to ensure the long-term security of the banking system," says Mr György Suranyi, president of the National Bank of Hungary. "As of today the bulk of the assets and equity of the banking sector is controlled by strategic investors and the bulk of the equity is owned by foreign strategic investors.

"Competition has increased dramatically, and the quantity and quality of services have improved fantastically, especially in the corporate banking sector, where spreads have narrowed greatly. Electronic banking is as common as in any western country. Three-and-a-half years ago, there was not any.

"We still require more competition in the retail sector, but there are three or four big institutions that have decided to develop this sector too, so we think we will have the same development in retail as in wholesale banking."

With the large number of new entrants to the Hungarian financial sector and the presence of so many big, well-capitalised foreign banks, analysts forecast a period of intense consolidation in coming years.

"If all want to grow it is going to be a bloodbath in two to three years," says Mr Andras Simor, managing director of Creditanstalt Securities in Budapest. "It is a question of how many want a large market position and how many just want to be here as a service centre for a global client base.

"The competition that will happen will put Hungary in a position where its services are as good as any in Europe in five years time."

■ **Tourism:** by Virginia Marsh

Value and variety

With better promotion and advertising, growth could be even more rapid

Dubbed the "happiest barracks on the block" in the communist era, Hungary has long had a more important tourism sector than most other former Warsaw Pact countries. But, despite increased competition in the region, growth in the sector is far outstripping recovery in other parts of the economy.

"The growth is almost too good to be true," says Mr Gyorgy Szekely, who heads the tourism section of the ministry of industry, trade and tourism. He predicts official foreign exchange earnings from the sector of about $2.1bn this year, an increase of some 30 per cent over 1995, and expects a rise of at least another 10 per cent next year.

According to official statistics the sector provides about 4.5 per cent of GDP and employs about 350,000 or 8 per cent of the workforce, an increase of some 20 per cent over 1990 levels. But Mr Szekely says the real contribution to GDP is closer to 10 per cent because much activity in the sector is unrecorded.

Growth has resulted in part from privatisation – this year saw the sale of the last of the three main national hotel chains to western investors, while individual establishments in Budapest have been sold to or are managed by international groups such as Hilton, Marriott and Intercontinental.

Recovery is also due to efforts to attract more high-spending western visitors after a post-communist slump caused by the loss of Hungary's eastern markets. Since 1993, the number of visitors has returned to a steady 40m a year, with a little over half classified as tourists as opposed to transit or short stay travellers. Although last year tourists from the former Eastern bloc still provided 60 per cent of the total, Austria and Germany accounted for a little over a quarter while the numbers from the US and Japan continued to rise.

The change in the mix of visitors, away from the lower end of the market, is reflected by higher occupancy rates at four and five star hotels which last year achieved about 63 per cent compared to rates of 44 per cent and 35-38 per cent in medium and lower category hotels respectively.

Within Europe, Mr Szekely says Hungary faces strong competition from Austria and the Czech Republic. For overseas travellers, the three countries believe they can attract more visitors by working together, especially through promotion of tours taking in Vienna, Budapest and Prague, the so-called "golden triangle" of Habsburg cities.

Mr Peter Kraft, country manager for American Express, says the sector is developing on the right track but that transformation and growth could be even more rapid. He notes that neighbouring Austria has doubled its tourism revenues from a higher base over the past decade.

"The sector's facilities are working at about 50 per cent capacity. If used fully this would be an $8bn a year industry and would employ an extra 300,000 to 400,000 – a large part of the present number of unemployed," he says.

At present he believes there is too much focus on Budapest and that, as well as planned infrastructure improvements, more should be done to encourage tourists to visit other parts of the country. He adds that, although the mix of visitors has improved, Hungary could attract more high-spending travellers, in part through closer co-operation between the tourism industry and cultural organisations. Market research shows that Hungary's rich musical and artistic traditions are among the greatest attractions for upmarket travellers.

He also believes the sector should increase spending on advertising and promotion and that it would benefit from a higher profile at the government level. This would help counterbalance tourism's relatively low profile in an economy which, under the communists, had manufacturing and heavy industry as a priority rather than service sectors.

"We've now got the name of 'tourism' at cabinet level through its recent addition to the ministry's title. But this is only a half step. We would like a separate minister for tourism as in neighbouring countries like Slovenia and Romania," he says.

While a main aim is to improve standards and services to attract more western visitors, Mr Szekely says the sector must pursue a diversified strategy aimed at all segments of the market.

"Hungary is a relatively small country and a transit point for many travellers," he says. "We're not like a Pacific island that can target five star travellers only."

Four product areas have been identified, however, as the main priorities. These are: city tours with an emphasis on culture and history; the traditional summer holiday, spent at Balaton, western and central Europe's largest lake; "wellness" travel which involves sports, outdoor activities or spa visits; and conference or business travel.

Efforts are also under way to develop tourism outside Budapest and Lake Balaton, the two main destinations at present. Mr Szekely estimates that Budapest accounts for about 40 per cent of the sector's revenues, followed by Balaton with 30 per cent. Although the lakeside was heavily developed in the 1970s and 1980s and many of its hotels are dreary concrete blocks, its resorts remain popular as they offer cheap holidays and are just a few hours drive from Austria, southern Germany and northern Italy.

Esztergom, a 1,000-year-old settlement on the border with Slovakia. *Victor Mozer*

Outside the main centres, areas where tourism is growing include north-west Hungary, in part due to its proximity to Vienna, and the Danube bend north of Budapest. Here the river is lined with pretty towns like Szentendre, an artists colony, which was partly built by Serbs, and Esztergom, a 1,000-year-old settlement on the border with Slovakia that is home to Europe's fourth-largest basilica.

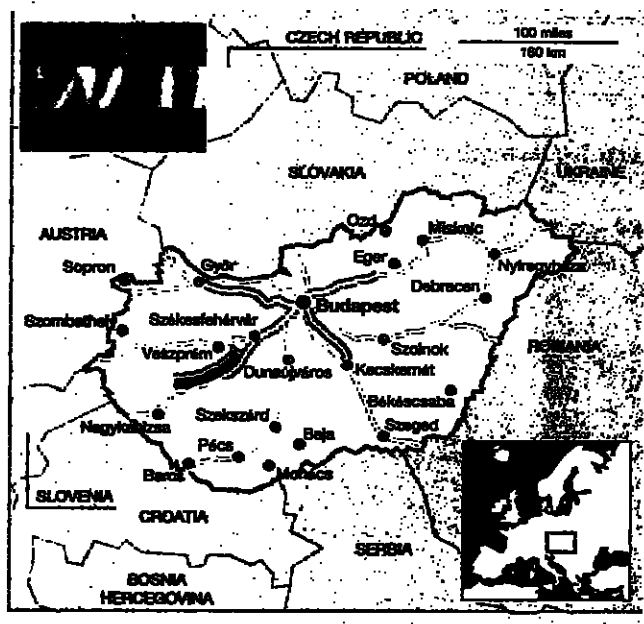
Although he advocates faster development of the sector, Mr Kraft says that Hungary represents tremendous value for money for visitors, something that will not last for ever.

"The country is changing rapidly. The emergence of a new Hungary economy, mixed with the vestiges of the Communist past – that is something to see in itself," he says. "In ten years time that won't be possible."

Warm welcome

Drill a hole in the ground anywhere in Hungary and there is a strong chance of finding thermal water, often hot and rich in minerals. The country sits on some [illegible]

[illegible] one with a temperature of 42°C, the other 38°C gushes out of a crevice from the lake's deepest point, nearly 40 metres below the surface. Mixed with cooler water, this gives a temperature in the low 30s for much of the [illegible]



■ Area: 93,030 sq km
■ Population: 10,277,000 (Jan 1994)
■ Language: Magyar (Hungarian)
■ Currency:
Forint (Ft) = 100 filler
Exchange rate: Dec 9 1996
$1=Ft162.44

■ Main towns and population (Jan 1994)

Budapest (capital)	1,996,000
Debrecen	218,000
Miskolc	190,000
Szeged	179,000
Pecs	172,000
Győr	131,000

Sources: Datastream; EIU;

■ **Head of state**
Arpad Goncz (re-elected June 1995)

■ **Legal system**
Based on constitution of October 1989

■ **National legislature**
Unicameral parliament of 386 members, of whom 176 are elected from single-member constituencies, 152 from county lists and 58 from a national list. Constitutionally, supreme power is vested in parliament. The Constitutional Court has powers to overturn parliamentary decisions and governmental decrees deemed contradictory to the constitution.

■ **Electoral system**
Universal direct suffrage over age 18

■ **Elections**
Last elections: May 8 and May 29 1994
Next elections due: May 1998

■ **National government**
Council of Ministers, headed by the prime minister, responsible to parliament. A new government took office on July 15 1994. The prime minister, Gyula Horn, leads a coalition of the HSP and AFD.

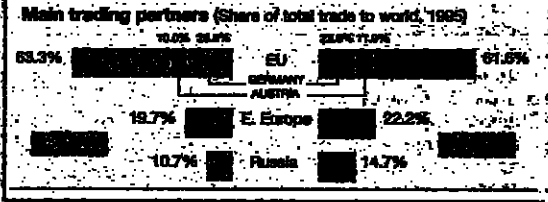
■ **Main political parties**
Hungarian Socialist Party (HSP); Alliance of Free Democrats (AFD); Independent Smallholders' Party (SP); Hungarian Democratic Forum (HDF); Alliance of Young Democrats-Hungarian Civic Party (Fidesz-HCP); Christian Democratic Peoples' Party (CDPP)

Economic summary

	1996(e)	1997(f)
Total GDP, nominal ($bn)	44.8	48.1
Real GDP growth (annual % change)	1.5	3.5
GDP per head ($)	4,398	4,728
Inflation (annual average % change in CPI)	24.0	19.0
Real industrial output (annual % change)	3.0	5.0
Real services output (annual % change)	0.6	2.7
Unemployment rate (% of labour force)	10.5	10.2
Money supply, M2 (annual % change)	14.0	12.0
Foreign exchange reserves ($bn)	10.5	11.9
Central government budget balance (% of GDP)	-4.2	-3.6
Foreign debt ($bn)	31.82	31.58
External debt/head ($)	3,120	3094
Debt service (% of exports)	35.1	27.5
Current account balance ($bn)	-1.80	-1.77
Merchandise exports ($bn)	14.05	15.97
Merchandise imports ($bn)	-16.08	-18.07
Trade balance ($bn)	-2.03	-2.10

(e) estimate (f) forecast

Main trading partners (Share of total trade to world, 1995)



■ **Television:** by Kevin Done

Privatisation programme

Consortia are about to bid for east Europe's most prized concessions

Final terms for the public tender for two national commercial television channels and two national commercial radio stations will be published shortly in Hungary, triggering an intense competition for some of the most attractive electronic media licences yet offered in east Europe.

While being at the forefront of privatisation in many other sectors, Hungary has previously been a laggard in offering concessions in television and radio with its media legislation mired in years of protracted debate.

The country, which has attracted the lion's share of foreign direct investment in central Europe since the collapse of communism, is set to overtake its neighbours by being the first to make licences the subject of public cash tenders and also by offering two channels to ensure that it does not create a monopoly in terrestrial commercial television.

A new media law was passed by the Hungarian parliament last December and, under the present timetable, two new commercial television channels are due to start broadcasting on September 1 next year.

With a population of 10.3m, Hungary already offers one of the largest television advertising markets in east Europe, worth around $170m annually by the end of this year after growing by 14 per cent between 1994 and 1995 and by around 6 per cent this year. This compares with 1995 television advertising expenditures of $330m in Poland with a population of 38.8m, $145m in the Czech Republic (10.4m people), $25m in Romania (23.2m), $30m in Slovakia (5.4m) and $38m in Slovenia (2.1m).

Currently around 90 per cent of all television advertising budgets in Hungary goes to public television. The terms of the commercial television concessions now on offer ensure that the pickings will not come as cheaply to media groups as has happened elsewhere in the region.

Under the terms of the draft tender published last month, which are likely to be little changed as a result of last week's public hearing, Hungary has set a minimum of $50m for each television channel for a 10-year concession, with an upfront payment for the first three years.

The coverage offered by the two licences is virtually identical. The first commercial television channel is planned to reach 87 per cent of the population and the second 86 per cent. The two concessions will use the frequencies of the present second public channel (MTV2), which is itself to be transferred to satellite, as well as earlier Russian army frequencies. There will also be some expansion of the present transmitter network.

This final point remains controversial with the government still to solve the financial problems of Antenna Hungaria, the troubled state-owned transmission company, which requires a Ft3bn($20m) injection of new capital in order to be able to carry out the required expansion of the terrestrial television and radio transmitter network.

ORTT, the Hungarian national radio and television council set up this year to oversee the sector and to organise the tenders, says, however, that even without expansion of the transmission network, the two channels could achieve 83 per cent and 71 per cent coverage respectively, when broadcasting begins.

Competition for the new privately owned commercial channels will come from the public service broadcaster Hungarian Television with its channels MTV1 (terrestrial) and MTV2 and Duna (both to be satellite channels), as well as from a multiplicity of more than 300 local television and radio stations and also international satellite broadcasters.

More than 97 per cent of households in Hungary have television. More than 40 per cent have cable television, the highest cable penetration in the region, with another 15 per cent able to pick up satellite television directly. Two local Budapest broadcasters TV3 and M-Sat have recently widened their reach through the use of digital satellite distribution.

The arrival of privately-owned, terrestrial national commercial television will force a far-reaching shake-up

> Rules on cross ownership in other media could prove controversial

at MTV, Hungarian television, which may have to halve its workforce in the medium term.

The Hungarian media law sets down several specific criteria for the way in which groups must be formed to bid for the two television frequencies, which has set off intense behind-the-scenes bargaining between rival media groups and potential financial backers.

Consortia must consist of at least three bidders with no single entity allowed to own more than 49 per cent. At the same time, a stake of at least 26 per cent must be owned by domestic interests.

Rules on cross-ownership in other media could also prove controversial with a company publishing a national newspaper in Hungary not allowed an interest of more than 25 per cent in a company bidding for a television channel. Much of the Hungarian print media is already owned by German groups, some of which are considering bidding for television and radio concessions.

Under the rules put forward by ORTT for assessing bids, 40 out of a possible total of 100 points will be awarded on the basis of how much money is offered for the licence. Another 50 points will be awarded on the basis of the operations planned, including up to 35 points for programming, 10 points for the business plan and 5 points for the technical content of the bid. A final ten points will cover remaining items such as references and the date for starting broadcasting.

The membership of prospective consortia is still unclear, but several media groups have already announced that they intend to be at the starting line including: Luxembourg-based CLT with its German partner Bertelsmann; a consortium comprising Scandinavian Broadcasting Systems, MTM, a local Hungarian production company, and Tele München; and Central European Media Enterprises (CME), the US, Nasdaq-quoted pioneer of privately-owned commercial television in east Europe.

Among declared candidates, CME, which is controlled by Mr Ronald Lauder, one of the heirs to the Estée Lauder cosmetics fortune, has established a clear lead in commercial television elsewhere in the region.

It is already co-owner of stations broadcasting in the Czech Republic, Slovakia, Slovenia and Romania; and has operations under development in Poland and Ukraine. At least in the case of Nova TV in the Czech Republic, which was its first station in east Europe to go on air in early 1994, it has shown that commercial television can be highly lucrative with operating profits of $25m in the first nine months this year. As a first step in Hungary earlier this year it took over from the state Videovox, the leading company engaged in the dubbing of foreign language programming.

MONDAY ACCOUNTANCY APPOINTMENTS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

BANKS, MERCHANT

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

BANKS, RETAIL

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

BREWERIES, PUBS & REST

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

BUILDING & CONSTRUCTION

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

BUILDING MATS. & MERCHANTS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

CHEMICALS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

CHEMICALS - Cont.

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

DISTRIBUTORS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

DIVERSIFIED INDUSTRIALS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

ELECTRICITY

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

ELECTRONIC & ELECTRICAL EQPT

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

ENGINEERING

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

ENGINEERING - Cont.

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

ENGINEERING, VEHICLES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

EXTRACTIVE INDUSTRIES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

EXTRACTIVE INDUSTRIES - Cont.

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

FOOD PRODUCERS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

FOOD PRODUCERS - Cont.

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

GAS DISTRIBUTION

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

HEALTH CARE

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

HOUSEHOLD GOODS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

HOUSEHOLD GOODS - Cont.

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

INSURANCE

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

INVESTMENT TRUSTS

	Notes	Price	Wk% ch'nge	Div net	Dividends paid	NAV	Last xd	City line
[illegible]								

INVESTMENT TRUSTS - Cont.

	Notes	Price	Wk% ch'nge	Div net	Dividends paid	NAV	Last xd	City line
[illegible]								

INV TRUSTS SPLIT CAPITAL

	Notes	Price	Wk% ch'nge	Div net	Dividends paid	NAV	Last xd	City line
[illegible]								

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PAPER, PACKAGING & PRINTING - Cont.

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, FOOD - Cont.

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		221½	—	0945c	♦	May Oct	2.9	–
Barlow	♣	25⅝xd	-4.1	0165c	♦	Jan Jul	9.12	–
Gold Flds Prop R		138¼	1.0	080c	1.5	Mar Sep	28.2	–
MK Props		65	—	083.9c	–	Mar Sep	9/95	–
SASOL	♥	645	—	979c	–	Oct	9/93	–
SA Brews		2144¼xd	-3.1	0200c	♦	Jul Feb	2.12	4113
Standard Bank		221½	-3.3	0284c	3.1	Sep Mar	–	–
Tiger Oats		780	—	0132c	♦	Jan Jul	10.6	–
Tongaat-Hulett		746¼xd	-1.8	0136c	♦	Jan Jun	20.5	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ⚘ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4 2(a) Irish incorporated non-listed companies.
- ℘ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other offical estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. ja Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment. Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other offical estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Quadrant (Eng),Brands Hatch (LeH),Fst Russian C (Otln),Hlthcare Reform (InTr),Grantchester, Cap Shopping Centres 6¼% (Prop),Goshawk Ins, Snakeboard Intl (AIM). Deletions: Tom Cobleigh (Brew),Ecu Tst, Do Wrts, Hambros Smlr Asian C (InTr),Robert Fraser Asset Mangmt (AIM),Ireland Cap 8½pc, Do 9pc, Do 13pc (Fixed Int).

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda
UK Prof Advisers 0800 414181 — Jersey 01534 71696
Private Clients 0800 414161 — 00 352 250404220
From O'seas (44) 1732 777377 — Hong Kong (852) 848 1000

	Init Charge	Selling Price	Buying Price	Yield Gr's	City-Line
A$ Accum		A$19.287		5.30	40807
ASch Accum		Sch246.68		2.10	47844
C$ Accum		C$16.765		2.30	40941
DM Accum		DM38.429		1.80	41220
DFl Accum		DFl31.738		1.70	40888
ECU Accum		Ecu13.553		3.00	41230
FFr Accum		FFr67.266		2.39	41352
HK$ Accum		HK$172.01		4.20	41316
Lire Accum		L23852		6.80	41398
NZ$ Accum		NZ$40.398		7.80	41944
NKr Accum		NKr113.04		3.10	49049
S$ Accum		S$25.126		2.40	49050
SPta Accum		Pta2759.1		5.80	50124
£ Accum		£13.331		4.80	41546
Skr Accum		SKr121.72		3.10	48054
SFr Accum		SFr29.411		0.80	41550
US$ Accum		$23.658		4.40	41575
Yen Accum		Y2880.8		0.10	41582

Prices for dealing December 13

Jupiter Tyndall (Bermuda) Ltd
PO Box HM1256, Hamilton, Bermuda — 001 809 292 2780
Jupiter Tyndall World Umbrella Fund Ltd

	Init Charge	Selling Price	Buying Price	Yield Gr's	City-Line
Eurobond		$16.36	17.19	3.40	45873
Money		$14.27	15.00	2.61	45872

Prudential Fund Managers (Guernsey) Ltd
Po Box 61, St Peter Port Guernsey — 01481 707000
Prudential Money Funds Ltd

	Init Charge	Selling Price	Buying Price	Yield Gr's	City-Line
Managed Sterling		148.4	148.5	4.66	45637
Managed Dollar	5	$14.23	14.24	4.57	45838
Dollar Deposit		$10.05	10.05	3.74	45848

Rothschild Asset Management (CI) Ltd
PO Box 242, St Peter Port, Guernsey — 01481 7107420

	Init Charge	Selling Price	Buying Price	Yield Gr's	City-Line
Five Arrows Latin Am Dist	5	$14.23	15.37	0	44866

Five Arrows International Bond Funds

	Init Charge	Selling Price	Buying Price	Yield Gr's	City-Line
FAIB £ Bond	3½	£21.77	22.46	5.04	47645
FAIB US$ Bond	3½	$33.23	34.34	5.77	47647
FAIB £ Global	3½	£17.30	17.88	6.14	44945
FAIB US$ Global	3½	$31.22	32.27	4.71	44950

Five Arrows International Reserves Ltd

	Init Charge	Selling Price	Buying Price	Yield Gr's	City-Line
FAIRL £		£45.384		4.58	45864
FAIRL A$		A$50.483		5.28	45865
FAIRL C$		C$59.671		2.02	45866
FAIRL DFl		DFl100.681		1.78	45667
FAIRL DKr		DKr380.80		2.42	45668
FAIRL DM		DM98.3		2.06	45669
FAIRL ECU		Ecu32.088		3.06	45670
FAIRL BFr		BFr2047.29		1.87	45671
FAIRL FM F		FM380.655		1.87	-
FAIRL FFr		FFr447.158		2.74	45672
FAIRL HK$		HK$182.54		4.36	45673
FAIRL Lire		L145614		6.76	45674
FAIRL NZ$		NZ$40.968		7.83	45781
FAIRL NKr F		NKr401.334		2.80	-
FAIRL S$		S$87.398		2.09	45675
FAIRL R F		R304.858		14.83	-
FAIRL Pta		Pta4522.98		5.65	46783
FAIRL SF		SFr77.346		0.78	45676
FAIRL SKr		SKr203.78		3.21	46782
FAIRL U.S.$		$63.17		4.40	45677
FAIRL Yen		Y10114.08		0.00	45678
FAIRL Man £		£26.263		4.26	45679
FAIRL Man DM		DM65.611		1.74	45680
FAIRL Man $		$31.569		3.62	45681
FAIRL Man Int		$21.62		1.79	44064

Five Arrows Currency Fund Ltd

	Init Charge	Selling Price	Buying Price	Yield Gr's	City-Line
FACFL £		£10.0576		4.73	45683
FACFL A$		A$15.090		5.31	45684

LGT Asset Management Ltd - Contd.

	Init Charge	Selling Price	Buying Price	Yield Gr's	City-Line
GT Indian Small Cos B		£4.72		0.00	55042
GT Japan OTC Stocks A		$9.50	10.09	0.00	45216
GT Japan OTC Stocks A		£5.71	6.02	0.00	45222
GT Japan OTC Stocks B		$9.89		0.00	47032
GT Japan OTC Stocks B		£5.82		0.00	48141
GT Japan Sm Cos A		$12.61	13.27	0.00	45235
GT Japan Sm Cos A		£7.59	7.98	0.00	45240
GT Japan Sm Cos B		$12.85		0.00	46048
GT Japan Sm Cos B		£7.73		0.00	48172
GT Korean Growth A		$0.39	0.41	0.00	-
GT Korean Growth A		$0.65	0.68	0.00	-

Tilney (Ireland) Ltd
20/22 Lower Hatch Street, Dublin 2 — 00 3531 7905013

	Init Charge	Selling Price	Buying Price	Yield Gr's	City-Line
US Mid Cap		$10.42		-	-

IRELAND (REGULATED)(**)

Gartmore Korea Fund Plc

	Selling Price	Buying Price	Yield Gross	City-Line
NAV	$5.92		-	-

Global Euro-Asia Investment

	Selling Price	Buying Price	Yield Gross	City-Line
Turkish Smaller Cos	$10.38	10.79	-	-

Global Resources Stock Fund

	Selling Price	Buying Price	Yield Gross	City-Line
NAV	$12.69		-	59042

Goldman Sachs

	Selling Price	Buying Price	Yield Gross	City-Line
US$ Liquid Reserves (u)	$1.00		5.27	-

Gordon House Asset Management Ltd

Scottish Mutual Intl Fund Managers Ltd

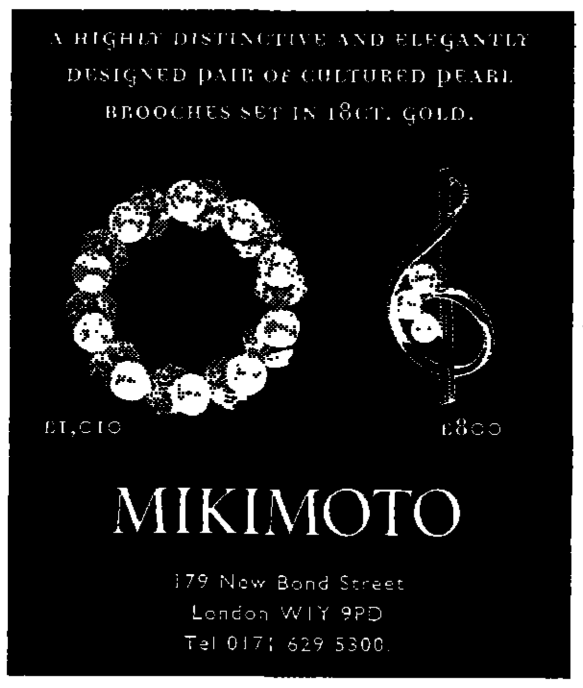
	Selling Price	Buying Price	Yield Gross	City-Line
UK Equity £	£1.084		-	-
UK Fixed Interest £	£1.051		-	-
Global Equity $	$1.099		-	-
Global Bond $	$1.032		-	-
Fixed Bond $	$1.043		-	-

Sellers Investment Mngt (Ireland) Ltd

	Selling Price	Buying Price	Yield Gross	City-Line
Stryx Global	SFr177.85		-	-
Stryx Growth Equities	SFr139.27		-	-
Stryx Lucrum	SFr111.20		-	-
Stryx Barometer	SFr112.40		-	-

Newton Fund Mgrs - Contd.

	Init Charge	Selling Price	Buying Price	Yield Gr's	City-Line
Bonds					
Sterling Bond	3½	£2.337	2.482	5.98	44816
International Bond	3½	$2.668	2.748	5.39	44817
US Dollar Bond	3½	$1.356	1.467	4.98	48442
Currencies					
£ Sterling	0	£37.14		4.65	44818
US$	0	$73.54		4.73	44819
D Marks	0	DM89.47		1.88	44821
Ecu's	0	Ecu40.64		2.98	44820
Managed					
Intl Portfolio	5½	£2.723	2.880	-	44825
Managed Currency US$	3½	$7.830	7.985	4.11	44826



Murray Johnstone (Dublin) Ltd
Europa House, Harcourt St, Dublin 2 — 3531 407 2000
Murray Global Accumulation Fund Plc

	Init Charge	Selling Price	Buying Price	Yield Gr's	City-Line
Murray Financials Spec	2	103.86		6.25	-

Odey Asset Management Ltd
80 Harcourt Street, Dublin 2 — 00 3531 790 2400

	Init Charge	Selling Price	Buying Price	Yield Gr's	City-Line
Odey European Gth Inc.		DM164.65		-	45064
Odey European Gth Acc.		DM165.26		-	45136
Odey European Gth Inc.		£64.21		-	61293
Odey European Gth Acc.		£64.44		-	61294

Baring Mutual (Ireland) Ltd

	Selling Price	Buying Price	Yield Gross	City-Line
Umbrella Fund Inc	$12.90	13.29	0.00	45874
Greater America Fund '92	$399.87		0.00	45879
Pacific Emerging 94 A	$88.04		0.00	52199
Pacific Emerging 94 B	$82.84		0.00	52200
Latin America	$7.35		0.00	54437
Taiwan Fund NAV	$10.75		0.00	52195

Berkshire KITC Growth Fund Plc

	Selling Price	Buying Price	Yield Gross	City-Line
NAV	$5.90		-	-

هكذا من الأصل

هكذا من الأصل

Offshore Funds and Insurances

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LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

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OTHER OFFSHORE FUNDS

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 13 / Sch)

BELGIUM/LUXEMBOURG (Dec 13 / Frs.)

CZECH REP (Dec 13 / Koruna)

DENMARK (Dec 13 / Kr)

FINLAND (Dec 13 / Mka)

FRANCE (Dec 13 / Frs.)

GERMANY (Dec 13 / Dm.)

GREECE (Dec 13 / Drachma)

ITALY (Dec 13 / Lira)

NETHERLANDS (Dec 13 / Fls.)

NORWAY (Dec 13 / Kroner)

POLAND (Dec 13 / Zloty)

PORTUGAL (Dec 13 / Escudo)

SPAIN (Dec 13 / Pta.)

SWEDEN (Dec 13 / Kronor)

SWITZERLAND (Dec 13 / Frs.)

TURKEY (Dec 13 / Tk Lira)

PACIFIC

JAPAN (Dec 13 / Yen)

AUSTRALIA (Dec 13 / Aust$)

HONG KONG (Dec 13 / H.K.$)

INDONESIA (Dec 13 / Rupiah)

MALAYSIA (Dec 13 / MYR)

NEW ZEALAND (Dec 13 / NZ $)

SINGAPORE (Dec 13 / S$)

SOUTH KOREA (Dec 13 / Won)

TAIWAN (Dec 13 / TW $)

THAILAND (Dec 13 / Baht)

NORTH AMERICA

CANADA

TORONTO (Dec 13 / Can $)

4 pm close

MONTREAL (Dec 13 / Can $)

4 pm close

AFRICA

SOUTH AFRICA (Dec 13 / Rand)

INDICES

	Dec 13	Dec 12	Dec 11	1996 High		1996 Low	
India							
BSE Sens.(1979)	2881.15	2880.26	2941.39	4069.26	18/6	2745.06	4/12
Indonesia							
Jakarta Comp.(10/8/82)	624.45	627.89	626.57	634.57	9/12	512.48	2/1
Ireland							
ISEQ Overall(4/1/88)	2631.54	2655.38	2665.05	2700.94	4/10	2234.81	2/1
Italy							
Banca Comm Ital(1972)	631.27	640.82	643.69	674.10	20/5	572.21	27/3
MIB General(2/1/95)	1071.0	1087.0	1091.0	1142.00	20/5	970.90	27/3
Japan							
Nikkei 225(16/5/49)	20341.39	20501.20	20558.38	22666.80	26/6	19734.70	13/3
Nikkei 300(1/10/82)	284.63	288.06	288.70	318.70	26/6	284.48	11/3
Thailand							
Bangkok SET(30/4/75)	872.87	872.25	885.88	1415.94	6/2	872.25	12/12
Turkey							
Istanbul Cmp.(Jan 1986)	89838.8	90823.5	91828.7	94407.20	6/12	38979.30	2/1
WORLD							
MS Capital Int$(1/1/70)	803.8*	807.8	818.1	832.20	25/11	725.90	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1832.24	1855.66	1854.05	1869.49	3/12	1504.40	11/1
Euro Top-100(26/6/90)	1540.13	1550.72	1548.87	1583.23	3/12	1333.01	11/1
HSBC JC Dept(31/12/88)	(u)	409.22	412.81	420.20	27/11	344.19	2/1
MG Bngs Emrg(7/1/92)	155.87	157.18	158.15	166.91	4/7	147.36	3/1

US INDICES

	Dec 13	Dec 12	Dec 11	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	728.64	729.33	740.73	757.03	598.48	757.03	4.40
				(25/11)	(10/1)	(25/11/96)	(1/6/32)
Industrials¶	857.48	859.18	871.34	887.48	702.07	887.48	3.52
				(2/12)	(15/1)	(2/12/96)	(30/6/32)
Financial	79.49	79.33	81.17	84.93	58.67	84.93	7.13
				(29/11)	(10/1)	(29/11/96)	(4/9/74)
NYSE Comp.	384.07	384.29	389.54	398.88	321.41	398.88	4.64
				(25/11)	(10/1)	(25/11/96)	(25/4/42)
Amex Mkt Val	576.06	579.11	583.92	614.89	525.60	614.89	29.13
				(22/5)	(18/7)	(22/5/96)	(9/12/74)
NASDAQ Cmp	1284.91	1288.33†	1309.12	1318.27	988.57	1318.27	54.87
				(9/12)	(15/1)	(9/12/96)	(3/10/74)

RATIOS

	Dec 6	Nov 29	Nov 22	Year ago
Dow Jones Ind. Div. Yield	2.05	2.02	2.06	2.27
	Dec 11	Dec 4	Nov 27	Year ago
S & P Ind. Div. yield	1.85	1.83	1.81	1.95
S & P Ind. P/E ratio	23.04	23.05	23.30	19.06

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Iomega	7,685,600	18¾	-1¼
Micron Tch	6,930,700	35½	-1
Pepsico	4,622,900	29⅛	+⅛
AT & T	4,332,800	39	+⅛
Coca Cola	4,324,000	47⅞	+⅞
IBM	3,884,300	152¼	+¼
General El	3,738,000	95¾	-⅛
Chase Manh	3,549,500	85⅞	-1⅛
BankAmer	3,217,900	95¼	+1⅛
Compaq Cm	3,192,500	80	+⅛

TRADING ACTIVITY

● Volume (million)

	Dec 13	Dec 12	Dec 11
New York SE	454.475	492.759	494.193
Amex	20.072	22.920	21.225
NASDAQ	(a)	600.987	646.210
NYSE			
Issues Traded	3,284	3,313	3,323
Rises	1,050	880	502
Falls	1,435	1,626	2,138
Unchanged	809	807	683
New Highs	64	94	57
New Lows	64	52	55

S&P 500

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	725.00	729.45	+1.90	733.00	722.25	41,800	115,803
Mar	734.25	736.40	+1.90	739.80	729.00	104,114	118,302

Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	20300.0	20310.0	-230.0	20380.0	19950.0	50,831	205,417
Jun	20260.0	20310.0	-170.0	20310.0	20000.0	6,390	24,560

Open interest figures for previous day.

INDEX FUTURES

CAC-40 (200 x index)

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	2187.0	2209.5	-5.5	2210.0	2175.0	26,339	24,189
Jan	2188.5	2214.0	-5.5	2216.5	2180.5	2,660	6,424

DAX

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	2824.0	2820.0	-30.5	2824.0	2785.5	38,323	-
Mar	2846.0	2841.0	-28.0	2846.0	2805.5	8,521	-

OMX

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	1778.00	1791.00	-17.00	1795.00	1773.00	5,456	18,699
Jan	1782.00	1796.00	-15.75	1799.00	1782.00	719	14,622

SOFFEX

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	3819.0	3839.0	-21.0	3846.0	3809.0	5,471	21,081
Jan	3825.0	3847.1	-17.0	3850.0	3820.0	446	4,120

** Sat Dec 7 . Taiwan Weighted Price 6779.67; Korea Comp Ex 698.11. Base values of all indices are 100 except: Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., IBVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 25 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours Index: Dec 13 - 2815.77 -31 17

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation.

TOKYO - MOST ACTIVE STOCKS: Friday, December 13, 1996

	Stocks Traded	Closing Prices	Change on day
Tokyo Gas	10.9m	307	-17
Bk Tk-Mitsubishi	9.4m	2040	-40
Nippon Steel Co	9.0m	330	-5
Mitsubishi Hvy	7.8m	924	-4
Kobe Steel	6.8m	257	-4
NEC Corp	6.3m	1380	-20
Toshiba Corp	6.3m	737	+2
Kawasaki Steel	6.3m	341	-5
Hitachi	6.0m	1050	-20
Sumitomo Mtl Ind	6.0m	304	+10

4 pm close December 13

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div.	Yld %	P/E	Sls 100s	High	Low	Close Price	Chg'e Prev. Close
30⅝	25⅝	Bay St Gas	1.54	5.7	13	102	27⅞	27⅛	27⅛	-½
40⅞	15¾	BBN			9	487	21¼	20⅞	21¼	-¼
22¼	19⅞	Bd Tr 1838	1.56	7.8		33	20⅛	20	20	
8⅞	7¼	BEA Inc x	2.69	36.4		1546	7½	7⅜	7½	
9⅜	8½	BeaStra x	0.81	9.1		72	9	8⅞	8⅞	
27⅞	17¼	Bear Stns	0.60	2.3	7	2533	26	25¾	25⅞	-⅛
44⅞	41	BearSPIA	2.82	6.4		2	44	44	44	

Continued on next page

4 pm close December 13

NYSE PRICES

Continued from previous page

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended.

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NASDAQ NATIONAL MARKET

4 pm close December 13

AMEX PRICES

4 pm close December 13

FT GUIDE TO THE WEEK

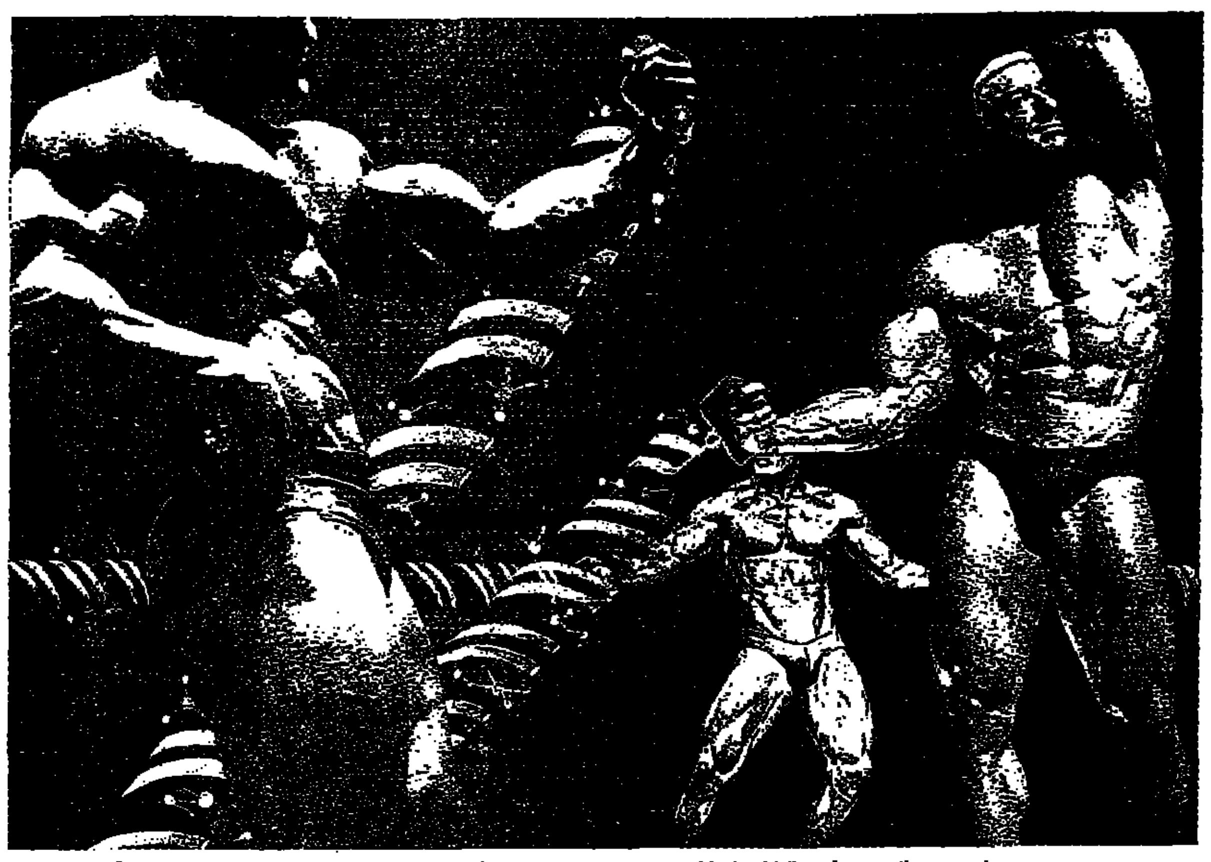
MONDAY 16

EU/US summit

John Bruton, the prime minister of Ireland and current president of the European Union, and Jacques Santer, the president of the European Commission, meet US President Bill Clinton in Washington for the latest twice-yearly transatlantic summit. The subjects include a further review of the areas designated for joint action in last year's EU-US transatlantic agenda – especially progress in improving trade in a range of agricultural and industrial products. Other items likely to be considered include relations with Russia, the peace process in the Middle East and tensions in central Africa.

Veal crates face chop

A plan to phase out by 2000 the use of veal crates for rearing calves will be debated by EU farm ministers in Brussels (to Dec 17). For some big veal-producing countries, such as Italy, even that is too radical. The prediction is there will not be a deal before early next year, in spite of strong pressure to end the use of veal crates by countries such as Britain.



Man or beast? Unesco experts meet in Paris on Monday for a two-day debate on ethical guidelines for genetic research

Mastering Enterprise

The 12-part FT Mastering Enterprise series on entrepreneurship continues in the Financial Times, with part five. The series covers every stage from starting a company to building and sustaining entrepreneurial attitudes in large organisations and the public sector. (UK and continental editions only; for orders, call 0171 538 1164 or fax 0171 537 3594, price £4 per copy or £30 for the series.)

Solar investment push

Greenpeace hosts a "solar investment summit" – an attempt to bring together producers of solar technology with the investment sector in order to accelerate solar energy development. Senior executives of leading banks, investment houses and insurance companies, as well as the World Bank, will attend. A Greenpeace spokesman said the meeting in Oxford was to encourage more "proactive engagement" between investors and producers.

Rifkind in Cyprus

Malcolm Rifkind, the British foreign secretary, holds talks in Nicosia on reuniting Cyprus. Tension has been running high on the Mediterranean island because of recent killings along the UN-policed Green Line, which divides the Greek and Turkish Cypriot communities. President Glafkos Clerides and Rauf Denktash, the Turkish-Cypriot leader, are under pressure to agree a political settlement that would permit both halves of the island to join the European Union at the end of the decade.

Bolivia and Mercosur

An agreement to integrate Bolivia gradually into the Mercosur free-trade zone is expected at a meeting of the heads of state of the four Mercosur members, Brazil, Argentina, Paraguay and Uruguay (to Dec 17). The agreement in Fortaleza, Brazil, will be similar to that already reached with Chile. Other topics will include increasing air transport between the members and the setting of environmental and competition standards.

Saleroom

One of the most important private collections devoted to the work of Graham Greene comes up for sale at Sotheby's in London. Collected by an American, Clinton Ives Smullyan, the 228 lots should raise at least £250,000. Among the highlights are Greene's proof copy of *The End of the Affair*, which contains notes by Evelyn Waugh. The book should make £9,000. An annotated proof copy of *The Heart of the Matter* carries a top estimate of £8,000. Also available are files kept on Greene by the US government, which suspected him of communist leanings.

Barbados drugs summit

An emergency summit of the Caribbean Community (Caricom) takes place in Barbados to discuss a deterioration in relations between some members and the US over drugs trafficking. The islands are increasingly being used for smuggling cocaine and heroin from South America to the US. Although several countries have signed controversial agreements with the US to tackle the problem, some have balked. The summit follows US claims that a Jamaican parliamentarian, so far unnamed, is linked to the drugs trade.

FT Survey

Hungary.

Public holidays

Bahrain, Bangladesh, Kazakhstan, South Africa.

TUESDAY 17

War crimes hearing in UK

Defence lawyers in Britain's first war crimes trial are expected to urge that charges against Szymon Serafinowicz be dismissed as an abuse of process, because the case is being held more than 50 years after the events. Mr Serafinowicz, an 85-year-old retired carpenter, faces three charges in Sheffield of murdering three unidentified Jews between 1941 and 1942, in the German occupation of Byelorussia. If the argument fails, the defence will plead in a subsequent hearing that Mr Serafinowicz, who protests his innocence, is unfit to face trial.

Reform of Nato

Nato defence ministers meet in Brussels to discuss a sweeping reform of its command structure, which has run into difficulty because of US-French disagreements. They will also consider the future of Nato's peace-keeping operation in Bosnia, where its mission next year will be much smaller. Central and east European defence ministers, including Russia's Igor Rodionov, will join the meeting on Wednesday to discuss Nato's eastward enlargement.

Murdoch unveils JSkyB

Rupert Murdoch unveils plans in Tokyo by News Corporation and Softbank to launch a satellite multi-channel broadcasting service. Mr Murdoch, the chairman of News Corporation, and Masayoshi Son, who heads Softbank, will explain how JSkyB plans to prosper in Japan's increasingly crowded television market. The service by JSkyB, to be owned jointly, is to begin offering 150 digital channels in Japan next year.

Strikes in Greece

Greek public-sector workers plan stoppages and demonstrations in Athens to coincide with the opening of a debate in parliament on the 1997 budget, following a three-week highways blockade by farmers. The socialist government says it will impose a civil service hiring freeze and apply spending caps to state-controlled organisations next year. Its aim is to reduce the general budget deficit by three percentage points, to 4.2 per cent of GDP, and keep alive Greece's hopes of joining the single currency by 2001.

Ukraine presses donors

Ukraine meets its aid donors in Washington, with the Kiev government pressing for an extra $1bn (£600,000) on top of $3.1bn, in the form of loans and grants from western governments and institutions. The funds are intended to help Ukraine service about $1bn in foreign debt due next year and to underwrite a budget deficit without stoking inflation. Ukraine seeks the extra support in order to support an ambitious structural reform effort.

Public holiday

Bhutan.

WEDNESDAY 18

Maize on EU's menu

Ritt Bjerregaard, European commissioner for the environment, will announce whether maize that has been genetically modified can be sold on the EU market. The Commission's decision follows months of controversy over the safety of a maize developed by Swiss chemicals group Ciba Geigy that is supposed to be resistant to the European corn-borer pest. Environmentalists have argued that the maize could be unsafe because it could reduce the efficacy of antibiotics in animals and humans.

Equestrianism

Olympia show jumping championships, London (to Dec 22).

Cricket

Start of the first Test match between England and Zimbabwe at the Queen's Club ground in Bulawayo (to Dec 22).

FT Survey

Norway.

THURSDAY 19

OECD releases report

The Organisation for Economic Co-operation and Development releases its half-yearly report on the state of the world's economy. The analysis of the OECD, which acts as a think-tank for 29 industrialised nations, will be read closely for its judgment about how fast growth is picking up in Japan and continental Europe and whether inflationary pressures are emerging in the faster-growing US and UK economies.

Bundesbank gives target

The Bundesbank, Germany's central bank, announces its money supply target for next year. Some economists have suggested that it should set a figure for both 1997 and 1998 to cover the last two years before the planned start of European monetary union in 1999. This year's target range of between 4 per cent and 7 per cent has been overshot. However, with inflation below 2 per cent, the Bundesbank has shown little concern.

Golden Globe nominations

The film industry's back-scratching season opens with nominations for the Golden Globe Awards, the Hollywood Foreign Press Association's traditional warm-up offering before the springtime presentation of the Oscars. The volume of blockbusters – films grossing $100m in the US – is close to record levels, while the number of releases this year shows no apparent reduction despite soaring production costs.

Golf

World championship, Tryall, Jamaica (to Dec 22).

FRIDAY 20

New Nato Bosnia mandate

The mandate for the Nato-led Implementation Force (Ifor) in Bosnia formally ends, but a UN Security Council resolution has approved plans for continued military presence. The new 31,000-strong force, called Sfor (Stabilisation force), will remain in the war-torn country for 18 months. Ifor came under criticism for failing to locate and arrest indicted war criminals, but senior Nato officials have made clear they do not want the new force to play policeman.

Czech/German patch-up

Josef Zieleniec, the Czech foreign minister, and Klaus Kinkel, his German counterpart, initial a joint declaration of historical reconciliation. The accord is aimed at overcoming mutual suspicions deriving from the second world war and at putting their relations on a post-communist footing. Both sides acknowledge crimes committed during the Nazi invasion of Czechoslovakia in 1938 and the expulsion after 1945 of 2.5m ethnic Germans from the Sudetenland.

WEEKEND 21-22

Hong Kong legislature

Formation of a controversial new legislature for Hong Kong is to be completed on Saturday, raising the prospect of confusion ahead of next July's return to Chinese sovereignty. The so-called provisional legislature, appointed by a China-backed committee, will replace the existing elected body at the handover. The move follows failure by Britain and China to agree on a legislative "through train" to span the transfer of sovereignty.

Compiled by Simon Strong. Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: The Bank of England publishes its latest quarterly assessment of UK companies preparations' for European monetary union. US industrial production is forecast to have rebounded last month.

Tuesday: Economists expect a modest UK public sector borrowing requirement last month after a repayment in October. The German Ifo survey due this week is expected to show stronger business activity.

Wednesday: UK retail sales figures will give an indication of the strength of high street demand in the run-up to the traditionally busy Christmas period. UK unemployment is expected to fall further towards the 2m level.

Thursday: UK M4 money supply is expected to have grown strongly again last month. Danish consumer price inflation is expected to have picked up slightly last month.

Friday: The UK's current account is expected to have been in balance in the third quarter. French industrial production is forecast to have grown slightly in October after September's fall.

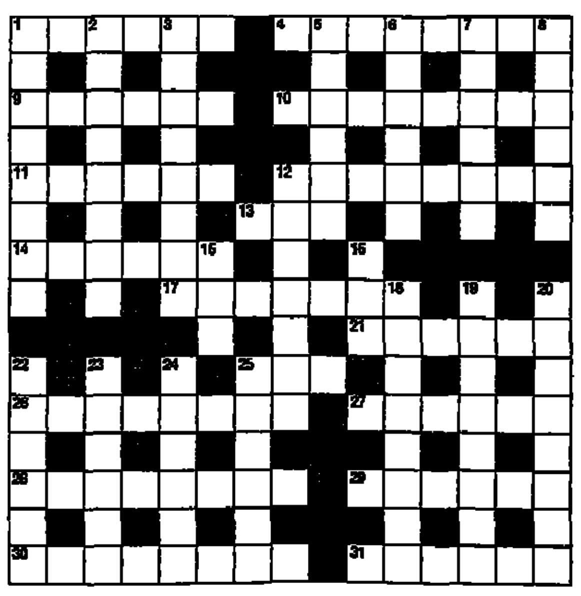
Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Nov Tokyo department store sales**		1.9%		US	Oct trade, goods and services	-$10.3bn	-$11.3bn
Dec 16	Japan	Oct industrial production†		3.6%		US	Oct goods and services, export	$69.8bn	$68.8bn
	Japan	Oct shipments†		3.3%		US	Oct goods and services, import	$80bn	$80.1bn
	US	Nov industrial production	0.5%	-0.5%		Canada	Oct retail sales*		0.2%
	US	Nov capacity utilisation	83.0%	82.7%		Canada	Nov department store sales**		4.1%
Tues	UK	Nov PSBR	£2.7bn	-£4.4bn		US	M1, week ended Dec 9		$14.6bn
Dec 17	US	Nov housing starts	1.39m	1.37m		US	M2, week ended Dec 9		$21.5bn
	US	Nov building permits		1.36m		US	M3, week ended Dec 9		$20.6bn
	Canada	Nov leading indicators*		0.6%	Fri	UK	Q3 gross domestic product*** (final)	0.8%	0.8%
	Japan	Nov trade bal customs cleared, nsa†	Y560bn	Y673bn	Dec 20	UK	Q3 gross domestic product** (final)	2.4%	2.4%
	Japan	Nov money supply (M2+CD)**	3.4%	3.7%		UK	Q3 current account	£125m	£792m
	Japan	Nov broad liquidity**		3.7%		US	Q3 gross domestic product (final)	2.0%	2.0%
	Japan	Dec WPI (first 10 days)		0.1%		US	Q3 GDP deflator (final)	1.9%	1.9%
Wed	UK	Nov retail sales*	0.5%	0.4%		US	Q3 after tax corporate profit	-2.6%	-2.6%
Dec 18	UK	Nov retail sales**	3.4%	4.1%		US	Nov export price index		-0.3%
	UK	Nov unemployment rate	-25k	-40.8k		US	Nov import price index		0.4%
	UK	Oct average earnings	4.0%	4.0%		US	Nov treasury budget	-$33.0bn	-$40.3bn
	UK	Oct unit wages, three months**	5.2%	5.2%	During the week...				
	Sweden	Oct industrial production		2.2%		Germany	Nov M3 from Q4 95 base	8.2%	8.4%
	Canada	Oct wage settlement**		1.6%		Germany	Nov private lending six-months	5.6%	5.6%
	Mexico	Oct retail sales**	1.45%	-1.8%		Germany	Dec prelim, cost of living, West*		-0.1%
Thurs	UK	Nov M4*	0.7%	1.1%		Germany	Dec prelim, cost of living, West**		1.4%
Dec 19	UK	Nov M4**	10.0%	10.3%		Italy	Oct trade balance (payments)		L2,800bn
	UK	Nov M4 lending	£5.2bn	£7.4bn		Italy	Nov balance of payments		L3,500bn
	UK	Nov build soc net new commitments	£4.1bn	£4.0bn					

*mth on mth, **yr on yr, ***qtr on qtr, †seasonally adjusted. Statistics, courtesy MMS International.

ACROSS
1 Author has small cottage in the Home Counties (6)
4 Prior is a clergyman in a religious setting (8)
9 Being restive is not any use, but might be (6)
10 Wide-screen presentation of an American production (8)
11 Mean he has to leave in the end (6)
12 Wanders, heading Middle East instead of West (8)
13 Fancy noisy publicity (3)
14 Functional American fuel product (6)
17 He took in, in wild glee, what was left (7)
21 Makes better repairs after some direction (6)
25 A pound note gets you a drink (3)
26 Dreadful family heard in abusive outburst (8)
27 A test in the gold trade (6)
28 Can start out to do business (8)
29 Draw attention to design fault about bearing (6)
30 A doctor might mix a gin in the medicine (8)
31 Going from Ringway to finish in continental port (6)

DOWN
1 Academic has rooms outside the university (8)
2 X-ray unit (8)
3 A great deal makes a graduate dissolute (8)
5 Upset about article, complained strongly (6)
6 Girl turns up after six – capital! (6)
7 Gave an address to read out (6)
8 Disputes over sweetheart are not frequent (6)
12 Person with fancy lace cuff (7)
15 A stocking filler (3)
16 Comb manufacturer (3)
18 Gemstones, dealers may hold a number (8)
19 In very short time the river becomes unsafe (8)
20 Divorced ladies to be rehabilitated (8)
22 Revised point I'd raised with Edward (6)
23 Burning waste on a huge scale (6)
24 Up and about when a siren has been set off (6)
25 A graduate copper's calculator (6)



MONDAY PRIZE CROSSWORD
No.9,252 Set by DANTE

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Tuesday December 24, marked Monday Crossword 9,252 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday December 30. Please allow 28 days for delivery of prizes.

Name.......................................

Address.......................................

Winners 9,240

C. Wheeler, Harrow, Middlesex
R.J.R. Bodden, Droitwich Spa, Worcs
Marion Bornstein, London SE19
Susan Carey, Lille, France
P. Gregson, London SE21
G.E. Hirst, Countesthorpe, Leicester

Solution 9,240

ROUGHS RIGHTOFF
E N E D A V E
SPHERE TELLTALE
I E E E A F L L
DRAWBACK TISSUE
U R Y O P N R
EDDY ONTHECARDS
O C O A H E
OFFTHEMARK ACES
A I Y A C K W
TODATE MONOTONE
M R C K H A N L
ELEPHANT ARTIST
A A A E S N E
LIMETREE LEDGER

JOTTER PAD

هكذا من الاصل